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NEW ISSUE — BOOK ENTRY ONLY

In the opinion of Bond Counsel, under existing law, assuming continued compliance with certain provisions of the Internal Revenue Code of 1986, as amended, interest on the 2000 Bonds will not be included in the gross income of holders of the 2000 Bonds for federal income tax purposes. Interest on the 2000 Bonds will not constitute a preference item for the purposes of computation of the alternative minimum tax imposed on certain individuals and corporations, although interest on the 2000 Bonds will be taken into account in computing the alternative minimum tax applicable to certain corporations. In the opinion of Bond Counsel, interest on the 2000 Bonds and any profit made on the sale thereof are exempt from Massachusetts personal income taxes, and the 2000 Bonds are exempt from Massachusetts personal property taxes. See "Tax Exemption" herein.



\$200,000,000

Massachusetts Bay Transportation Authority

General Transportation System Bonds

Variable Rate Demand Obligations

2000 Series

Dated: March 10, 2000

Price: 100%

Due: March 1, 2030

The 2000 Series Bonds (the "2000 Bonds") will be issued as fully registered bonds by means of a book-entry system evidencing ownership and transfer thereof on the records of The Depository Trust Company and its participants. The 2000 Bonds are variable rate bonds that may be in a Daily Mode, Weekly Mode, Term Rate Mode or Fixed Rate Mode. The 2000 Bonds initially will be in the Weekly Mode and will bear interest at Weekly Rates determined by PaineWebber Incorporated, as Remarketing Agent, as described herein. Purchases of the 2000 Bonds will be made in book-entry only form in denominations of \$100,000 and any integral multiple of \$5,000 in excess thereof, while the 2000 Bonds are in the Weekly Mode. Principal of and semi-annual interest (payable March 1 and September 1, commencing September 1, 2000) on the 2000 Bonds are payable as described herein. The 2000 Bonds will be subject to optional redemption, mandatory redemption and optional and mandatory tender for purchase prior to maturity as more fully described herein.

The 2000 Bonds will be issued pursuant to Chapter 161A of the General Laws of the Commonwealth of Massachusetts and will constitute direct and general obligations of the Authority. Section 13 of Chapter 161A provides that if at any time the Authority lacks funds to pay a bond or note issued or assumed by it, the Authority shall requisition the required amount from the Commonwealth. In the opinion of Bond Counsel, the obligation of the Commonwealth to pay the required amount to the Authority is a general obligation of the Commonwealth and the full faith and credit of the Commonwealth are pledged to make such payment. It should be noted, however, that Chapter 62F of the Massachusetts General Laws establishes a state tax revenue growth limit and does not exclude payment of such amounts from the scope of the limit. See "Security for and Payment of the 2000 Bonds" herein.

Legislation has been enacted by the Commonwealth that will substantially modify the funding mechanisms for the Authority commencing July 1, 2000. However, such legislation has no effect on bonds of the Authority issued prior to such date, including the 2000 Bonds. See "The Authority — Forward Funding."

The Authority will enter into a Standby Bond Purchase Agreement with Westdeutsche Landesbank Girozentrale, New York Branch (the "Bank") with respect to the 2000 Bonds. See Appendix E. The Standby Bond Purchase Agreement is a liquidity facility that requires the Bank to purchase the 2000 Bonds tendered or deemed tendered to the extent not remarketed, subject to certain funding conditions described herein. The Bank is not providing credit support for payment of regularly scheduled principal and interest. See Appendix D under "The Standby Bond Purchase Agreement."

The 2000 Bonds are offered when, as and if issued and received by the Underwriters, and subject to the unqualified approving opinion as to legality of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts, Bond Counsel to the Authority. Certain legal matters will be passed upon for the Authority by Krokidas & Bluestein LLP, Boston, Massachusetts, Special Disclosure Counsel to the Authority, for the Underwriters by Palmer and Dodge LLP, Boston, Massachusetts, for the Bank by its domestic counsel, Whitman Breed Abbott & Morgan LLP, New York, New York, and by its in-house German counsel, and for the Commonwealth by Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts, Commonwealth Disclosure Counsel. Settlement of the 2000 Bonds is expected on or about March 10, 2000, at The Depository Trust Company in New York, New York.

PaineWebber Incorporated

Bear, Stearns & Co. Inc.

Lehman Brothers

Morgan Stanley Dean Witter

March 3, 2000



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MASSACHUSETTS BAY TRANSPORTATION AUTHORITY

BOARD OF DIRECTORS

KEVIN J. SULLIVAN, CHAIRMAN

WILLIE J. DAVIS

JAMES A. RADLEY

JANICE LOUX

BOYCE SLAYMAN

SENIOR MANAGEMENT

ROBERT H. PRINCE, JR., GENERAL MANAGER

JAMES T. BROWN Chief of Safety

JONATHAN R. DAVIS Chief Financial Officer

PATRICIA A. DAY Chief Labor Relations Officer

ROBERT HAYDEN, JR. Assistant General Manager

HOWARD M. HAYWOOD Chief of Design & Construction

JOAN M. MARTIN Chief of Employee Relations and Administration

ABNER A. MASON Deputy General Manager

WILLIAM A. MITCHELL, JR. General Counsel

MICHAEL H. MULHERN Chief Operating Officer

THOMAS J. O'LOUGHLIN Chief of Police

C. MIKEL OGLESBY Chief of Staff

WESLEY G. WALLACE, JR. Treasurer-Controller

The information set forth herein has been obtained from the Authority, the Commonwealth and other sources which are believed to be reliable, but, as to information from other than the Authority, it is not to be construed as a representation by the Authority or, as to information from other than the Commonwealth, by the Commonwealth. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority, or of the Commonwealth or of its authorities, agencies and political subdivisions, since the date hereof, except as expressly set forth herein. The various tables may not add due to rounding of figures.

The underwriters have provided the following sentence for inclusion in this Official Statement. The underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the underwriters do not guarantee the accuracy or completeness of such information.

No dealer, broker, salesperson or other person has been authorized to give any information or to make any representation other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the Authority or the Commonwealth. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the 2000 Bonds offered hereby by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

All quotations from and summaries and explanations of provisions of laws, resolutions, the 2000 Bonds and other documents herein do not purport to be complete; reference is made to said laws, resolutions, the 2000 Bonds and other documents for full and complete statements of their provisions. Copies of the above are available for inspection at the principal office of the Authority.

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OFFICIAL STATEMENT
OF THE
MASSACHUSETTS BAY TRANSPORTATION AUTHORITY
PERTAINING TO ITS
\$200,000,000
GENERAL TRANSPORTATION SYSTEM BONDS
Variable Rate Demand Obligations, 2000 Series

INTRODUCTION

The purpose of this Official Statement is to set forth information concerning the Massachusetts Bay Transportation Authority (hereinafter called the "MBTA" or "Authority"), and its \$200,000,000 General Transportation System Bonds, Variable Rate Demand Obligations, 2000 Series (the "2000 Bonds") dated March 9, 2000, in connection with the sale of the 2000 Bonds by the Authority. Capitalized terms used and not otherwise defined herein shall have the meanings given such terms in Appendix D.

In connection with the 2000 Bonds, the Authority will enter into a Standby Bond Purchase Agreement dated March 9, 2000 (the "Standby Bond Purchase Agreement") with Westdeutsche Landesbank Girozentrale, New York Branch (the "Bank"). The Standby Bond Purchase Agreement is a liquidity facility that requires the Bank to purchase the 2000 Bonds tendered or deemed tendered to the extent not remarketed, subject to certain funding conditions described herein. The Bank is not providing credit support for payment of regularly scheduled principal and interest. For information about the Standby Bond Purchase Agreement, see "THE 2000 BONDS - Description of 2000 Bonds - Standby Bond Purchase Agreement" and Appendix D. For information about the Bank, see Appendix E.

AUTHORIZATION FOR THE 2000 BONDS

The 2000 Bonds are being issued under and subject to the General Bond Resolution of the Authority adopted on February 15, 1967, as amended (hereinafter called the "General Bond Resolution" or the "General Resolution"), pursuant to the provisions of Chapter 161A of the General Laws of The Commonwealth of Massachusetts, as amended (hereinafter called the "Act") and a Series Resolution adopted February 29, 2000 (the "Series Resolution"). See Appendix D for a summary of certain provisions of the Series Resolution. State Street Bank and Trust Company, Boston, Massachusetts, (the "Fiscal Agent" or the "Paying Agent") serves as Fiscal Agent and Paying Agent under the General Resolution and the Series Resolution. Bonds heretofore issued by the Authority were also issued under and subject to the General Resolution and various series resolutions. The General Resolution contains no limitations as to the principal amount of bonds that may be issued thereunder, and, subject to the provisions and conditions thereof with respect to the issuance of bonds, the Authority may issue bonds in such principal amount as may be authorized by law including, without limitation, any applicable debt limitations. However, as a result of recently enacted legislation described under "The Authority - Forward Funding", the Authority does not anticipate issuing additional Bonds under the General Resolution. See "The Authority -- Indebtedness."

USE OF PROCEEDS

The proceeds of the 2000 Bonds will be used to finance the Authority's share of the costs of projects in the Authority's capital improvement program, including payment of bond anticipation notes the proceeds of which were used to finance such costs. Such capital improvement projects involve modernization and expansion of the Authority's mass transportation system. See "The Authority -- Capital Improvement Program."

A portion of the proceeds of the 2000 Bonds will be used to pay costs of issuance (including underwriters' discount).

SECURITY FOR AND PAYMENT OF THE 2000 BONDS

The 2000 Bonds are direct and general obligations of the Authority, and its full faith and credit are pledged to the payment of the principal of and interest on the 2000 Bonds. Except as provided in the General Bond Resolution in the event of a default, all Bonds issued and outstanding under the General Bond Resolution, including the 2000 Bonds, are on a parity with each other. On the happening or continuance of an event of default under the General Bond Resolution, the principal amount or redemption price of any Bond, or interest thereon, not then due or payable, does not become due or payable. The General Bond Resolution also contains provisions relating to the priority of payments of principal and interest on the Bonds in certain events. See "Summary of Certain Provisions of the General Bond Resolution -- Defaults and Remedies."

The Authority is subject to suit, but its property is not generally subject to attachment or levy to pay a judgment on its bonds or notes. Provision is made, however, in Section 13 of the Act (as discussed below) for court-ordered payments of unpaid bonds from moneys received for such purpose by the Authority from The Commonwealth of Massachusetts (the "Commonwealth").

Certain provisions of the Act summarized below provide for payments to the Authority from the Commonwealth for application to the payment of debt service on the 2000 Bonds. Legislation has been enacted that rewrites the Authority's enabling act and will substantially modify the funding mechanisms for the Authority commencing July 1, 2000. However, such legislation has no effect on bonds of the Authority issued prior to July 1, 2000, including the 2000 Bonds. See "The Authority -- Forward Funding."

Obligation of the Commonwealth for Payments to the Authority for Debt Service

Section 13 of the Act

If at any time the Authority lacks funds to pay principal or interest due or about to come due on a bond or note issued or assumed by it (other than a state-guaranteed bond anticipation note), Section 13 of the Act provides that the Authority shall requisition the required amount from the Commonwealth and the Commonwealth shall pay the required amount to the Authority. In the opinion of Bond Counsel, the obligation of the Commonwealth to pay the required amount to the Authority is a general obligation of the Commonwealth and the full faith and credit of the Commonwealth are pledged to make such payment. It should be noted, however, that Chapter 62F of the Massachusetts General Laws establishes a state tax revenue growth limit and does not exclude payment of such amounts from the scope of the limit. Section 13 further provides that the Authority or any holder of any such unpaid bond or note, acting in the name of and on behalf of the Authority, shall have the right to require the Commonwealth to pay the Authority the amount remaining unpaid, which right shall be enforceable as a claim against the Commonwealth.

The pertinent provision of Section 13 relating to the payment of Authority bonds and notes, including the portion thereof providing for judicial enforcement, is as follows:

"If at any time any principal or interest is due or about to come due on any bond or note issued or assumed by the authority, other than any principal or interest on any bond anticipation note guaranteed by the commonwealth, and funds to pay the same are not available, the directors shall certify to the state treasurer the amount required to meet such obligations and the commonwealth shall thereupon pay over to the authority the amount so certified. If the commonwealth shall not make such payment within a reasonable time or shall not pay when required any applicable contract assistance under section twenty-eight, the authority or any holder of an unpaid bond or note issued or assumed by the authority, acting in the name and on behalf of the authority, shall have the right to require the commonwealth to pay the authority the amount remaining unpaid, which right shall be enforceable as a claim against the commonwealth. The authority or any such holder of an unpaid

bond or note may file a petition in the superior court for Suffolk county to enforce such claim or intervene in any such proceeding already commenced and the provisions of chapter two hundred and fifty-eight shall apply to such petition in so far as it relates to the enforcement of a claim against the commonwealth. Any such holder who shall have filed such a petition may apply for an order of said court requiring the authority to apply funds received by the authority on its claim against the commonwealth to the payment of the petitioner's unpaid bond or note, and said court if it finds such amount to be due him shall issue such an order."

With respect to said provision, the Massachusetts Supreme Judicial Court has stated:

"Section 13, as noted above, imposes an obligation on the Commonwealth to make advances to the Authority at any time when required to put it in funds to meet its obligations. There are in §13 specific provisions to assure lenders the aid of the courts to require that the advances needed to pay them are made. This is a 'right' enforceable against the Commonwealth." *Massachusetts Bay Transportation Authority v. Boston Safe Deposit and Trust Company*, 348 Mass. 538, 555 (1965).

The above provisions of Section 13 are included in the new enabling act effective July 1, 2000 and will be applicable to bonds issued prior to July 1, 2000. See "The Authority -- Forward Funding."

Section 28 of the Act

Section 28 of the Act authorizes the Commonwealth's entry into a contract of assistance with the Authority pursuant to which the Commonwealth agrees to pay to the Authority a portion of the debt service on bonds of the Authority ("Section 28 Contract Assistance"). The 2000 Bonds will be included in the measure of such Section 28 Contract Assistance in the amount of 90% of the debt service thereof pursuant to a Designation of Bond Issue for Contract Assistance. See "The Authority -- State and Federal Assistance Payments."

Under Section 28 of the Act, the Commonwealth has entered into a contract to pay to the Authority Section 28 Contract Assistance, which is a portion of the Net Cost of Service, based on annual debt service requirements of the Authority on certain of its indebtedness. See "The Authority -- State and Federal Assistance Payments." Pursuant to a Designation of Bond Issue for Contract Assistance, the 2000 Bonds will be included in the measure of such Section 28 Contract Assistance in the amount of 90% of the debt service thereof. Provisions of Section 13 discussed above which provide means for lenders to enforce certain obligations of the Commonwealth are also applicable to the Commonwealth's obligation to pay Section 28 Contract Assistance.

Commencing July 1, 2000, the Commonwealth's contract assistance obligations will be funded through a dedicated revenue stream, but the Commonwealth will nonetheless remain obligated to pay the 2000 Bonds, as described herein. See "The Authority -- Forward Funding."

Other Payments by the Commonwealth to the Authority

Section 12 of the Act provides that the Authority is to requisition from the State Treasurer and that the State Treasurer is to pay to the Authority annually the Net Cost of Service incurred by the Authority in providing its mass transportation services. The Net Cost of Service is defined in the Act as the difference between (a) all income received by the Authority, including but not limited to revenues from the operations of the transit system, advertising, parking, sale of capital assets in the ordinary course of business and gifts and grants for current purposes, and (b) all current expenses, including but not limited to expenses for operations, wages, contracts for service by others, maintenance, debt service, taxes and rentals.

Section 13 of the Act, in a separate provision from the provision discussed above pertaining to payments by the Commonwealth if funds are lacking to pay a bond or note, further provides that the Authority may require the Commonwealth to pay to it an amount not exceeding its estimated Net Cost of Service for that year to date if at any time the Authority lacks sufficient cash to make payments required of it in the course of its duties.

Commencing July 1, 2000, the Commonwealth will no longer be liable to pay the Net Cost of Service but will support the Authority's operating costs and debt service through a dedicated revenue stream. See "The Authority-- Forward Funding."

Authorizations for Temporary Borrowings

In order to make payments required of the Commonwealth by Sections 12 and 13, the State Treasurer is authorized by the Act to issue general obligation temporary notes of the Commonwealth in an amount sufficient to make such payments, to pay interest on the notes, and to pay costs of issuance. The proceeds of such notes will, however, be general funds of the Commonwealth until paid to the Authority and no lien has been created thereon while such funds are in the hands of the Commonwealth to secure payment of Authority bonds and notes at maturity in priority to other claims against the Commonwealth then or theretofore coming due. The Commonwealth has waived its sovereign immunity and consented to be sued on contractual obligations, which would include notes of the Commonwealth issued under the Act, as well as any other claims made against it pursuant to Section 13 of the Act, but the property of the Commonwealth is not subject to attachment or levy to pay a judgment.

Other Factors

The payment by the Commonwealth of an amount required to be paid by Sections 12 or 13 or by the Contract for Financial Assistance entered into under Section 28, the payment of a judgment obtained against the Commonwealth under Section 13 and the ability of the State Treasurer to issue notes of the Commonwealth to make such payments may be subject to legislative appropriation of the necessary funds.

Enforcement of a claim for payment of principal of or interest on bonds or notes of the Authority or notes of the Commonwealth and enforcement of the "right" against the Commonwealth described in "Obligation of the Commonwealth for Payments to the Authority for Debt Service" above would be subject to the applicable provisions of Federal or Commonwealth statutes, if any, hereafter enacted by the Congress or the state legislature extending the time for payment or imposing other constraints upon enforcement insofar as the same may be constitutionally applied.

The ability of the Commonwealth to issue notes in the future will depend upon the financial condition of the Commonwealth and the marketability of its debt instruments at the time such notes are to be issued. Factors which may affect the marketability of Commonwealth and Authority debt in the future cannot now be foreseen.

THE 2000 BONDS

General

The 2000 Bonds will be issued in the aggregate principal amount of \$200,000,000 and initially shall be in the Weekly Mode. The 2000 Bonds will be dated the date of original delivery thereof, will mature on March 1, 2030 and will be subject to redemption and mandatory tender for purchase and optional tender for purchase prior to maturity as set forth below. The principal, Purchase Price or Redemption Price of the 2000 Bonds is payable to Beneficial Owners by DTC Participants (as defined below) through the facilities of The Depository Trust Company ("DTC"), New York, New York, while the 2000 Bonds are in the book-entry only system described below. Otherwise, the principal, Purchase Price or Redemption Price of the 2000 Bonds is payable at the office of State Street Bank and Trust Company, Boston, Massachusetts, as Paying Agent (the "Paying Agent"). Purchases of the 2000 Bonds may be made only in book-entry form in denominations of \$100,000 or any integral multiple of \$5,000 in excess thereof in the Daily Mode, and the Weekly Mode and in denominations of \$5,000 and any integral multiple thereof in the Term Rate Mode and the Fixed Rate Mode.

Interest on the 2000 Bonds in any Mode is payable on March 1 and September 1 of each year (the "Interest Payment Dates"), commencing September 1, 2000.

The 2000 Bonds may bear interest at Daily Rates, Weekly Rates or Term Rates for periods (“Interest Periods”) selected from time to time by the Authority. In addition, the 2000 Bonds may be converted to bear interest at a Fixed Rate. The rate of interest to be borne by the 2000 Bonds during any particular Interest Period will be determined as described below under “Interest Rate Determination” by PaineWebber Incorporated, as Remarketing Agent (the “Remarketing Agent”) under the Remarketing Agreement dated as of the Closing Date by and between the Remarketing Agent and the Authority.

Description of 2000 Bonds

The 2000 Bonds may be in the Daily Mode, Weekly Mode, Term Rate Mode or Fixed Rate Mode and bear interest at the Daily Rate, Weekly Rate, Term Rate or Fixed Rate, respectively.

Depending on which mode is then in effect for the 2000 Bonds, the dates interest rates are effective, the dates on which notices of tender are required to be given, the dates on which such 2000 Bonds are to be tendered, the dates for notices of conversion to another mode and provisions for mandatory purchase applicable to such 2000 Bonds will vary. See the description below and Appendix D for further details.

Interest. The 2000 Bonds will bear interest initially at the Weekly Rate determined by the Remarketing Agent as described under “Interest Rate Determination.” At the option of the Authority, 2000 Bonds in the Weekly Mode, Daily Mode, or Term Rate Mode may be changed to any other mode, including the Fixed Rate Mode, as described below and in Appendix D.

Interest on the 2000 Bonds will become due and payable on the Interest Payments Dates in each year to and including the Maturity Date, and on each Redemption Date. Interest on 2000 Bonds in a Weekly Mode or Daily Mode will be computed on the basis of a 365- or 366-day year, as applicable, for the actual number of days elapsed.

Interest on 2000 Bonds in a Term Rate Mode or Fixed Rate Mode will be calculated on the basis of a 360-day year comprised of twelve 30-day months. Payment of interest on each 2000 Bond will be made on each Interest Payment Date for unpaid interest accrued during the Interest Accrual Period to the Holder of record on the applicable Record Date, which is the Business Day next preceding each Interest Payment Date.

As long as the Bonds are registered in the name of Cede & Co., as nominee of DTC, such payments will be made directly to DTC. See “BOOK-ENTRY ONLY SYSTEM.”

Interest Rate Determination. For 2000 Bonds in the Weekly Mode, the Weekly Rate shall be determined each week by the Remarketing Agent, by 4:00 p.m., New York time, initially on the Business Day prior to the original issuance of the 2000 Bonds and thereafter on each Tuesday or, if Tuesday is not a Business Day, the next succeeding day, or if such day is not a Business Day, then the Business Day next preceding such Tuesday (the “Rate Determination Date”). The interest rate for any 2000 Bond in the Weekly Mode shall be the rate of interest per annum determined by the Remarketing Agent on and as of the Rate Determination Date as the minimum rate of interest which, in the opinion of the Remarketing Agent under the existing market conditions, would result in the sale of such 2000 Bonds on the Rate Determination Date at a price equal to the principal amount thereof, plus accrued and unpaid interest, if any. Telephonic notice of each Weekly Rate will be given by the Remarketing Agent to the Holder or Notice Party requesting such rate after 4:00 p.m. on each Rate Determination Date. If the Remarketing Agent fails to determine a Weekly Rate, the 2000 Bonds will bear interest during each subsequent Interest Period at the BMA Municipal Swap Index in effect on the first day of such Interest Period. No Weekly Rate on the 2000 Bonds may exceed 9% per annum, the Maximum Rate. For a description of the procedures for determining Daily Rates, Term Rates and Fixed Rates, see Appendix D.

Optional Tender for Purchase. 2000 Bonds in the Weekly Mode may be tendered for purchase at a Purchase Price equal to 100% of the principal amount thereof, plus accrued interest, if any, to the Purchase Date, payable in immediately available funds upon irrevocable written or telephonic notice (promptly confirmed in writing) of tender to the Paying Agent not later than 4:00 p.m., New York time, on a Business Day not fewer than seven days prior to the Purchase Date specified by the Holder in such notice. The Purchase Date may be any

Business Day while the 2000 Bonds are in the Weekly Mode. As noted below under "Book-Entry Bonds," for so long as the 2000 Bonds are registered in the name of Cede & Co., as nominee for DTC, the procedures for tender of 2000 Bonds will be governed by the operational procedures of DTC.

Mandatory Purchase Upon Mode Change Date. 2000 Bonds to be converted from one Mode to another Mode are subject to mandatory purchase on the Mode Change Date at the Purchase Price equal to 100% of the principal amount of the 2000 Bonds, plus accrued interest.

The Paying Agent shall give written notice of such mandatory purchase to the Holders of the 2000 Bonds by mail no less than 30 days prior to the Mandatory Purchase Date setting forth, among other things: (a) the Mandatory Purchase Date; (b) the Purchase Price and that interest on the 2000 Bonds subject to mandatory purchase shall cease to accrue from and after the Mandatory Purchase Date.

Mandatory Purchase Upon Substitution of Standby Bond Purchase Agreement. The 2000 Bonds shall be subject to Mandatory Purchase in the event that on or prior to the forty-fifth (45th) day next preceding the date on which an Alternate Liquidity Facility is to be substituted for the Standby Bond Purchase Agreement (the "Substitution Date"), the Authority has failed to deliver a notice from the rating agencies that substitution of the liquidity facility will not result in a lowering of their ratings on the 2000 Bonds. Notice of such Mandatory Purchase shall be given by the Paying Agent to the Holders no less than 30 days prior to the Mandatory Purchase Date.

Mandatory Purchase At End of Interest Period for Term Rate Mode. The 2000 Bonds in the Term Rate Mode are subject to optional purchase at the end of the Interest Period. See Appendix D.

Delivery and Payment for Tendered Bonds. The Paying Agent, on behalf of the Authority, will purchase any 2000 Bonds properly tendered for purchase in accordance with the provisions of the 2000 Bonds. Delivery to the Paying Agent of 2000 Bonds to be tendered for purchase, upon both optional tender and mandatory purchase, together with wire payment instructions satisfactory to the Paying Agent, is required to be made by 1:00 p.m., New York time, on the Business Date which is the Purchase Date in order for tendering Bondholders to be paid in immediately available funds by 4:00 p.m., New York time, on such day. If the 2000 Bonds are delivered after 1:00 p.m., New York time, payment will be made on the next Business Day without any additional accrued interest. Bonds which are required to be tendered for purchase, upon both optional tender and mandatory tender, shall cease bearing interest from and after the date tender is required regardless of whether such 2000 Bonds are presented for payment and Bondholders shall have no further rights with respect to such Bonds other than the right to receive payment of the Purchase Price upon surrender of the 2000 Bonds.

Book-Entry Bonds. For so long as the 2000 Bonds are registered in the name of Cede & Co., as nominee for DTC, the tender option rights of Bondholders described above may be exercised only by a Direct Participant of DTC acting directly or indirectly on behalf of a Beneficial Owner of 2000 Bonds by giving notice of its election to tender 2000 Bonds or portions thereof at the times and in the manner described above. Beneficial Owners will not have any rights to tender 2000 Bonds directly to the Paying Agent. Procedures under which a Beneficial Owner may direct a Direct Participant of DTC or an Indirect Participant of DTC acting through a Direct Participant of DTC to exercise a tender option right in respect of any 2000 Bonds or portions thereof shall be governed by standing instructions and customary practices determined by such Direct Participant or Indirect Participant.

For so long as the 2000 Bonds are registered in the name of Cede & Co., as nominee for DTC, notices of mandatory tender for purchase of 2000 Bonds shall be given to DTC only, and neither the Authority, the Paying Agent, the Underwriters nor the Remarketing Agent shall have any responsibility for the delivery of any of such notices by DTC to any Direct Participants of DTC, by any Direct Participants to any Indirect Participants of DTC or by any Direct Participants or Indirect Participants to Beneficial Owners of the 2000 Bonds.

For so long as the 2000 Bonds are registered in the name of Cede & Co., as nominee for DTC, delivery of 2000 Bonds required to be tendered for purchase shall be effected by the transfer by a Direct Participant on the applicable Purchase Date of a book entry credit to the account of the Paying Agent of a beneficial interest in such

Bonds or portions thereof required to be tendered for purchase on that date.

For so long as the 2000 Bonds are registered in the name of Cede & Co., as nominee for DTC, payment of the Purchase Price shall be paid directly to DTC. Disbursement of such payments to the DTC Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of the DTC Participants and the Indirect Participants. See "BOOK-ENTRY-ONLY SYSTEM" herein.

Remarketing Agreement. The Remarketing Agent is required to use its best efforts to remarket Bonds properly tendered for purchase. See Appendix D for a summary of certain provisions of the Remarketing Agreement.

Standby Bond Purchase Agreement. The Standby Bond Purchase Agreement provides that the Bank agrees to purchase any unremarketed tendered or deemed tendered 2000 Bonds in the Weekly Mode or the Daily Mode from time to time in an amount not to exceed the principal amount thereof plus accrued interest thereon at an interest rate not exceeding 9% per annum, subject to the terms and provisions set forth in the Standby Bond Purchase Agreement. See Appendix D for a summary of certain provisions of the Standby Bond Purchase Agreement and Appendix E for certain information concerning the Bank. All information concerning the Bank has been provided by the Bank, and the Authority is not responsible for its accuracy or completeness.

The Authority will provide advance notice of the proposed substitution of the Standby Bond Purchase Agreement or Alternate Liquidity Facility to the Fiscal Agent at least forty-five (45) days prior to the date of substitution. The Fiscal Agent shall deliver a copy of such notice to the Holders of 2000 Bonds at least thirty (30) days prior to the date of substitution.

Optional Redemption. 2000 Bonds in the Weekly Mode or the Daily Mode are subject to optional redemption prior to maturity at the election of the Authority, in whole or in part on any Interest Payment Date, in such amount of Authorized Denominations as the Authority may determine, at a redemption price equal to 100% of the principal amount of 2000 Bonds being redeemed, together with accrued and unpaid interest to the date fixed for redemption but without premium. 2000 Bonds in the Term Rate Mode or Fixed Rate Mode will be subject to optional redemption features determined at the time of conversion to the Term Rate Mode or Fixed Rate Mode, respectively.

Mandatory Sinking Fund Redemption. The 2000 Bonds are subject to mandatory sinking fund redemption on March 1, 2010 and on each March 1 thereafter, in part in Authorized Denominations, at a redemption price equal to 100% of the principal amount of the 2000 Bonds to be redeemed, plus accrued interest thereon to the Redemption Date as follows:

<u>Year</u>	<u>Principal Amount</u>	<u>Year</u>	<u>Principal Amount</u>
2010	\$4,460,000	2021	\$9,385,000
2011	4,770,000	2022	10,040,000
2012	5,105,000	2023	10,740,000
2013	5,460,000	2024	11,495,000
2014	5,845,000	2025	12,300,000
2015	6,250,000	2026	13,160,000
2016	6,690,000	2027	14,080,000
2017	7,160,000	2028	15,065,000
2018	7,660,000	2029	16,120,000
2019	8,195,000	2030	17,250,000
2020	8,770,000		

The Authority is entitled to reduce its mandatory sinking fund redemption obligation in any year with respect to the 2000 Bonds by the principal amount of any 2000 Bonds previously purchased or optionally redeemed by the Authority. To the extent there are Bank-Owned Bonds, such Bank-Owned Bonds shall be redeemed from mandatory sinking fund payments prior to any other 2000 Bonds.

Notice of Redemption. Except as otherwise provided herein, the Authority shall give notice of redemption to the owners of the 2000 Bonds not less than 30 days prior to the date fixed for redemption. So long as the book-entry-only system remains in effect for the 2000 Bonds, notices of redemption will be mailed by the Authority only to DTC or its nominee. Any failure on the part of DTC, any DTC participant or any nominee of a beneficial owner of any 2000 Bond (having received notice from a DTC participant or otherwise) to notify the beneficial owner so affected, shall not affect the validity of the redemption.

On the specified redemption date, all 2000 Bonds called for redemption shall cease to bear interest, provided the Paying Agent has moneys on hand to pay such redemption in full.

Selection for Redemption. Except as otherwise provided in the Series Resolution, in the event that less than all of the 2000 Bonds of a single maturity are to be redeemed, and so long as the book-entry-only system remains in effect for such 2000 Bonds, the particular 2000 Bonds or portion of any such 2000 Bonds to be redeemed will be selected by DTC by lot. If the book-entry-only system no longer remains in effect for the 2000 Bonds, selection for redemption of less than all of the 2000 Bonds will be made by the Fiscal Agent by lot or in such other manner as it shall deem fair, provided that Bank-Owned Bonds shall be redeemed first. In no event will any 2000 Bond be outstanding in a principal amount that is not an Authorized Denomination.

2000 Bonds redeemed and paid for by the Standby Bond Purchase Agreement or Alternate Liquidity Facility shall remain outstanding and continue to accrue and become payable under the General Resolution as Bank-Owned Bonds.

Book-Entry Only System

DTC will act as Bond Depository for the 2000 Bonds. The ownership of one or more fully registered 2000 Bonds for each maturity, in the aggregate principal amount of such maturity, will be registered in the name of Cede & Co., as nominee for DTC. DTC is a limited-purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve system, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC was created to hold securities of its participants ("DTC Participants") and to facilitate the clearance and settlement of securities transactions among DTC Participants in such securities through electronic book-entry changes in accounts of DTC Participants, thereby eliminating the need for physical movement of securities certificates. DTC Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations, some of whom (and/or their representatives) own DTC. Access to the DTC system is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly (the "Indirect Participants").

Purchases of 2000 Bonds under the book-entry system may be made through brokers and dealers who are, or act through, DTC Participants. DTC Participants shall receive a credit balance in the records of DTC. The ownership interest of the actual purchaser of each 2000 Bond (the "Beneficial Owner") will be recorded through the records of the applicable DTC Participant. Beneficial Owners will receive a written confirmation of their purchase providing details of the 2000 Bonds acquired. Transfers of ownership interests in the 2000 Bonds will be accomplished by book entries made by DTC and by the DTC Participants who act on behalf of Beneficial Owners. Beneficial Owners will not receive 2000 Bonds representing their ownership interest in the 2000 Bonds, except as specifically provided in the Series Resolutions. Interest and principal will be paid to DTC, or its nominee, and then paid by DTC to the DTC Participants and thereafter paid by the DTC Participants to the Beneficial Owners when due.

NEITHER THE AUTHORITY NOR THE FISCAL AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO SUCH DTC PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE PAYMENTS TO DTC PARTICIPANTS OR INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS.

Beneficial Owners of the 2000 Bonds will not receive or have the right to receive physical delivery of such 2000 Bonds, and will not be or be considered to be owners thereof under the Series Resolution or the General Bond Resolution. So long as Cede & Co. is the registered owner of the 2000 Bonds, as nominee of DTC, references herein to the holders or registered owners of the 2000 Bonds shall mean Cede & Co. and shall not mean the Beneficial Owners of the 2000 Bonds.

For every transfer or exchange of any of the 2000 Bonds, the Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

DTC may determine to discontinue providing its service with respect to the 2000 Bonds at any time by giving notice to the Authority and discharging its responsibilities with respect thereto under applicable law. Under such circumstances, unless a substitute Bond Depository is retained by the Authority, 2000 Bonds are required to be delivered and registered as designated by the Beneficial Owners in accordance with the Series Resolutions. The Beneficial Owner, upon registration of 2000 Bonds held in the Beneficial Owner's name, will become the Bondholder.

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor Bond Depository). In such event, 2000 Bonds will be delivered and registered as designated by the Beneficial Owners in accordance with the Series Resolutions.

When reference is made to any action which is required or permitted to be taken by the Beneficial Owners, such reference shall only relate to action by such Beneficial Owner or those permitted to act (by statute, regulation or otherwise) on behalf of such Beneficial Owners for such purposes. When notices are given, they shall be sent by the Fiscal Agent to DTC only.

The principal of and interest on the 2000 Bonds will be paid to DTC or its nominee, Cede & Co., as registered owner of the 2000 Bonds. DTC's practice is to credit DTC Participants' accounts on the payable date in accordance with their respective holdings shown on the records of DTC unless DTC has reason to believe that it will not receive payment on the payable date. Payments by DTC Participants and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is now the case with municipal securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such DTC Participant or Indirect Participant and not of DTC, the Fiscal Agent, or the Authority, subject to any statutory and regulatory requirements as may be in effect from time to time.

The Fiscal Agent and the Authority, so long as a book-entry system is used for the 2000 Bonds, will send any notice of redemption or other notices to holders only to DTC. Any failure of DTC to advise any DTC Participant, or of any DTC Participant to notify the Beneficial Owner, of any such notice and its content or effect will not affect the validity of the redemption of the 2000 Bonds called for redemption or of any other action premised on such notice.

The Authority and the Fiscal Agent cannot and do not give any assurances that DTC, DTC Participants or others will distribute (i) payments of debt service on the 2000 Bonds paid to DTC or its nominee, as the registered owner, or (ii) any redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis or that DTC will serve and act in a manner described in this Official Statement.

THE AUTHORITY

The Authority was created in 1964 by the Act and is a body politic and corporate and a political subdivision of the Commonwealth. The territorial area of the Authority consists of 78 cities and towns in the greater Boston metropolitan area. The Authority finances and operates mass transportation facilities within its territory and to a limited extent outside its territory and is authorized to enter into agreements for providing mass transportation

service by private companies, including railroads.

Management

The affairs of the Authority are managed by a board of seven directors (the "Board of Directors" or "Board"). The State Secretary of the Executive Office of Transportation and Construction of the Commonwealth (hereinafter called the "Secretary") serves *ex officio* as the Chairman of the Board. The other six directors are appointed by the Governor of the Commonwealth to serve terms coterminous with the Governor. The Board has the power to appoint and employ a General Manager, subject to the approval of an advisory board (the "Advisory Board"). Currently, there are two vacancies on the Board. In addition, two other members of the Board, Directors Radley and Slayman, have indicated that they will resign from the Board as of March 31, 2000. The Act provides that the Advisory Board, consisting of a representative of each of the cities and towns constituting the Authority, shall have certain specified powers, including the power to approve the Authority's budget or subject it to itemized reductions.

The Authority's directors and principal officers are:

KEVIN J. SULLIVAN, *Chairman, Merrimac, Massachusetts*

Former Commissioner, Massachusetts Highway Department; former Deputy Commissioner, Massachusetts Highway Department; former Associate Commissioner, Massachusetts Highway Department; former Mayor of Lawrence, Massachusetts for two four-year terms; former Alderman and Director of Health and Charities for the City of Lawrence, Massachusetts.

WILLIE J. DAVIS, *Director, Newton, Massachusetts*

Practicing Attorney; Board Member of the Committee for Public Counsel Services; Former United States Magistrate Judge; former Assistant United States Attorney for the District of Massachusetts; and former assistant Attorney General of the Commonwealth of Massachusetts.

JANICE LOUX, *Director, Boston, Massachusetts*

President of Greater Boston Hotel Employees Local 26 Union; Treasurer of the Local 26 Trust Funds; former Vice-President and Benefits Officer of Local 26.

JAMES A. RADLEY, *Director, Dedham, Massachusetts*

President, A.I.M. Insurance; President of Falmouth Marine, Inc.

BOYCE SLAYMAN, *Director, Roxbury, Massachusetts*

Former Executive Director, Massachusetts Council of Human Service Providers; former Executive Director, Human Resources Center; former President, Boyce Slayman & Associates; former Senior Associate/Manager, Mark Battle Associates; former Store Manager, The Stop & Shop Companies.

ROBERT H. PRINCE, Jr., *General Manager*

Former Chief Operating Officer, MBTA; former Assistant General Manager for Subway Operations, MBTA; former Assistant General Manager for Human Resources, MBTA; former Special Assistant to the General Manager, MBTA.

ABNER A. MASON, *Deputy General Manager*

Former Undersecretary of Transportation and Chief of Staff, The Executive Office of Transportation and Construction; former Assistant Director of Construction, MBTA; former Project Manager, MBTA; former Assistant Project Manager, MBTA.

C. MIKEL OGLESBY, *Chief of Staff*

Former Section Chief of Administration and Finance, MBTA; former Project Manager of Human Resource Information System, MBTA; former Special Assistant to the General Manager's Office, MBTA; former Senior Manager of Budget, MBTA.

JONATHAN R. DAVIS, *Chief Financial Officer*

Former Budget Director, MBTA; former Vice-President and Controller, H.P. Hood Company.

WESLEY G. WALLACE, JR., *Treasurer-Controller*

Former Deputy Treasurer-Controller, MBTA; former Consultant to Construction Department, MBTA; former Assistant General Manager, Regional Transit Authority, New Orleans.

WILLIAM A. MITCHELL, JR., *General Counsel*

Former Member of Cosgrove, Eisenberg and Kiley, P.C.; former Chief of the Civil Bureau, Office of the Attorney General, Commonwealth of Massachusetts; former Chief of the Building Construction Unit, Office of the Attorney General, Commonwealth of Massachusetts; former Chairman, Contributory Retirement Appeal Board.

The Transportation System

The Authority operates rapid transit rail service, bus service and commuter rail service (through arrangements with Amtrak) for an area of eastern Massachusetts with a population of more than 2.6 million people. An estimated 645,000 passengers are served every business day on the transit and bus services, and an additional estimated 124,000 passengers per weekday on the commuter rail system.

Rapid Transit Rail Service. The Authority operates over 46 miles of rapid transit rail routes. Three separate rapid transit rail lines (the Red, Orange and Blue Lines), which now serve 53 stations, are served with heavy rail rapid transit equipment. Services are also provided by streetcars and light rail vehicles on 35 miles of additional rail routes (the Green Line and the Mattapan Line) serving 78 fixed stations and additional demand trolley stops.

Bus Service. The Authority owns more than 1,000 buses, which operate on 165 bus routes over a total route mileage of approximately 735 miles. In addition to local services, the Authority operates a frequent schedule of express buses to and from downtown Boston and surrounding communities on the Massachusetts Turnpike and U.S. Interstate 93. In addition, the Authority monitors five local service subsidy programs which provide intracommunity and bus connection services.

Commuter Rail Service. The Authority's commuter rail service operates over 425 units of passenger rail equipment (including locomotives and cars), providing service between downtown Boston and 117 outlying rail stations.

Other Services. A paratransit program, "The Ride," operates 179 vans and 111 sedans which serve the elderly and disabled with approximately 100,000 trips per month for work, medical treatment, shopping and social functions. The MBTA provides commuter boat service from the towns of Hingham and Hull to Boston as well as an inner harbor water shuttle service. Five vessels provide forty-two trips per day between Boston and Hingham while two vessels provide 4 trips per day between Boston and Hull. Inner harbor shuttle service has been expanded to include service between Lovejoy Wharf and the Charlestown Navy Yard, Charlestown Navy Yard to Long Wharf and Lovejoy Wharf to the U.S. Court House and World Trade Center.

Capital Improvement Program

Since 1964, when the Authority assumed control of the properties of its predecessor, the Metropolitan Transit Authority ("MTA"), the Authority has engaged in a major program of capital improvements to modernize its equipment, improve its physical plant, and relocate and extend its rapid transit and commuter rail lines. The program is financed in principal part through federal aid and the proceeds of Bonds issued by the Authority.

Highlights of the capital improvement program include:

Fleet Improvements

Buses. The Authority's capital program includes the continuous renewal and upgrading of the bus fleet by replacement or overhaul of old buses. The goal of the Authority's bus modernization program is to achieve an average age of six years for the buses now in the fleet and to strive to maintain a fifteen year useful life. In addition, the MBTA is currently exploring clean fuel alternatives for future bus procurements.

Light Rail Vehicles. The Authority is in the process of procuring 100 new Green Line "low-floor" cars in order to meet federal accessibility requirements. In addition, the Authority has purchased 20 standard Green Line cars and has overhauled 54 cars in the existing fleet.

Commuter Rail Vehicles. The Commuter Rail Vehicle Program is designed to meet growing ridership demands. Over the last ten years, the Authority has placed into revenue service over 323 new coaches and overhauled 57 Pullman coaches. During 1997 and 1998, the MBTA placed into revenue service 25 remanufactured locomotives and 17 bi-level coaches. New locomotives and coaches will be required in the future to accommodate continued ridership growth in the core system and for proposed new commuter rail extensions.

Infrastructure Improvements

Power System/Signal Improvements. Systemwide power improvements include modernization of power substations, reconnection and resectioning of existing power cable, the replacement of AC and DC power cable, and installation of new DC return cable at selected locations. Improvements to the Authority's Orange Line signal systems and systemwide radio communications are currently in the design stage with significant modifications planned over the next five years.

Track Improvements. The Authority's track improvement program includes the continuous renewal and upgrading of over 350 miles of commuter rail, light rail and heavy rail track. Current projects include the Red and Green Line Tie Renewal, as well as the North Station Tower A Project. When complete, the Tower A Project will eliminate existing speed restrictions on train movements into and out of North Station, thereby improving reliability and operating efficiency.

Station Modernization. The Authority has undertaken the modernization of the Blue Line, which involves upgrading station areas primarily for Americans with Disabilities Act (ADA) compliance purposes. In addition, central subway and surface stations on the Green Line are undergoing renovations to achieve ADA compliance standards as well as general upgrading. Station improvements include increased lighting, improvements to collector's booths, stairs, lobbies, walls, roofs, columns and other structural elements.

North Station. Work is progressing on a number of contracts which will result in a major expansion and modernization of the North Station complex. The project is a cooperative venture of the Authority, the City of Boston and the developer of the Fleet Center sports arena and commercial complex. The reconstruction of the existing commuter rail platforms into high-level platforms has been completed, enabling more direct access from platforms to trains for all passengers. The construction of an underground parking garage is also complete. The Authority is currently in the process of relocating the existing elevated Green Line structure at North Station into an underground station-tunnel complex that will allow for underground transfer between Green Line, Orange Line and Commuter Rail stations.

Old Colony Commuter Rail Service. Closed in 1959, the Old Colony Commuter Rail line ran in three branches between South Station in Boston and Greenbush, Plymouth and Middleboro/Lakeville in Southeastern Massachusetts. Commuter rail service was restored on the Plymouth and Middleboro branches in 1997. Design work on the Greenbush branch commenced in 1997, with revenue service anticipated within the next few years. In total, 22 new stations will serve a projected 30,000 passenger trips per day.

South Boston Piers Transitway. Construction began in 1995 on the South Boston Piers Transitway. This project consists of an underground transit tunnel that will extend from South Station to the World Trade Center. Revenue service is expected in 2003.

Boston Engine Terminal (BET). The MBTA has completed construction on the new \$215 million Boston Engine Terminal commuter rail maintenance facility. This repair and maintenance facility replaces the original terminal constructed at the beginning of this century. Operation of this facility will greatly enhance existing repair and maintenance capabilities throughout the entire commuter rail system.

Worcester Commuter Rail Service. Preliminary track and signal work was completed in 1994 to allow for interim commuter rail service between Worcester and Framingham. Additional track and signal improvements necessary to operate full service are underway. Work continues on the design and construction of four new intermediate station stops in Ashland, Southborough, Westborough and Grafton.

Fall River/New Bedford Commuter Rail Service. The Authority received \$136 million in bond authorization in the 1996 Transportation Bond Bill for the extension of commuter rail service to the Fall River/New Bedford region. The total estimated cost of this project is \$410 million.

Miscellaneous Infrastructure Projects. Other infrastructure projects include construction and modernization of maintenance facilities, installation and improvement of signals and communication systems, renewal and repair of non-revenue equipment, safety improvements, rehabilitation of tunnels and bridges, and installation of vent shafts on the Green and Red Lines. The Authority also has a number of projects underway to expand parking capacity throughout the system.

The Authority plans to invest approximately \$130 million over the next five years to make a number of stations/stops along the Green Line ADA compliant. In addition, several other ADA efforts are ongoing or in the design stage in accordance with the Authority's ADA Key Station plan.

The Authority's Capital Improvement Program includes projects which have either received federal assistance through the Federal Transit Administration ("FTA") or are being financed solely through the proceeds of Bonds. The federal participation ranges from fifty to eighty-five percent of the eligible project cost depending on the project or program. The federal funds are awarded under the Transportation Efficiency Act for the Twenty First Century (known as "TEA-21") which was passed by Congress and signed into law in 1998. This legislation provides for a transportation trust fund funded from federal taxes on gasoline purchases which supports the federal highway and mass transit programs. Federal funds are made available to the Authority by FTA through both discretionary and formula programs. The Authority has received a total of approximately \$1.040 billion in FTA capital funds during federal fiscal years 1992-1998.

The Authority has a number of additional projects in varying stages of development, some of which may receive federal grant funds in the future. These federal grant funds are awarded under TEA-21.

In the fall of 1994, during development of the Authority's fiscal 1996 operating budget and five year (fiscal years 1995-1999) capital spending plan, the Board of Directors placed an overall five-year capital spending limit on the use of bond funds in order to control the growth in the Authority's debt service costs. As a result, the current fiscal years 2000-2004 capital spending plan assumes an average annual bond spending cap of \$300 million and a total cap of \$1.5 billion over the five year period.

The following table shows project descriptions, estimated total project costs, expenditures through September 30, 1999 and estimated expenditures subsequent to September 30, 1999 for the Authority's current capital improvement program, and represents actual and projected spending for projects either in process or anticipated to be initiated over the next five years.

Under the new enabling act effective July 1, 2000, the Authority is required to develop a long-term capital program and a rolling five-year capital plan in accordance with certain criteria set forth in the enabling act. Such program and plan will be developed during fiscal year 2001 and may include all or a portion of the projects listed below.

CAPITAL IMPROVEMENT PROGRAM COSTS AND EXPENDITURES

	Estimated Total Projects	Expended Through September 30, 1999	Estimated Expenditures Subsequent to September 30, 1999
<u>INFRASTRUCTURE IMPROVEMENTS</u>			
Bus Program	\$ 185,175,000	\$ 3,493,767	\$ 181,681,233
Red Line	91,053,397	41,210,151	49,843,246
Green Line	162,635,535	98,549,984	64,085,551
Orange Line	21,319,000	6,785,527	14,533,473
Blue Line	14,162,500	9,162,265	5,000,235
Commuter Rail	607,423,827	348,986,042	258,437,785
Fare Collection	30,298,305	7,714,211	22,584,094
Orange Line Signal Upgrade	89,200,000	414,779	88,785,221
System Wide	<u>2,460,539,504</u>	<u>180,460,583</u>	<u>2,280,078,921</u>
Subtotal Infrastructure Improvements	<u>\$3,661,807,068</u>	<u>\$ 696,777,309</u>	<u>\$2,965,029,759</u>
<u>CLEAN AIR ACT / CENTRAL ARTERY MITIGATION</u>			
Old Colony Railroad	\$ 146,431,680	\$ 128,380,323	\$ 18,051,357
Green Bush Extension	285,000,000	7,186,295	277,813,705
South Boston Piers Transitway	651,330,000	186,565,702	464,764,298
North Station Transportation Center	254,025,231	143,456,977	110,568,254
Blue Line Modernization	730,220,000	121,098,701	609,121,299
Fall River / New Bedford Commuter Rail	410,000,000	9,488,223	400,511,777
Worcester Commuter Rail Extension	93,410,000	64,081,529	29,328,471
Parking Program	71,759,015	25,086,782	46,672,233
Washington Street Replacement Service	52,262,000	5,773,917	46,488,083
Circumferential Transit	3,541,155	1,639,697	1,901,458
Other Clean Air Act and Central Artery Projects	<u>115,163,155</u>	<u>107,983,040</u>	<u>7,180,115</u>
Subtotal Clean Air Act and Central Artery	<u>\$2,813,142,236</u>	<u>\$ 800,741,186</u>	<u>\$2,012,401,050</u>
<u>ACCESSIBILITY IMPROVEMENTS</u>			
Green Line Low Floor Cars	\$ 203,625,000	\$ 77,764,225	\$ 125,860,775
Green Line Station Access	\$ 135,349,885	\$ 6,686,290	128,663,595
Other Access Projects	<u>67,808,056</u>	<u>19,908,084</u>	<u>47,899,972</u>
Subtotal Accessibility Improvements	<u>\$ 406,782,941</u>	<u>\$ 104,358,599</u>	<u>\$ 302,424,342</u>
TOTAL	<u>\$6,881,732,245</u>	<u>\$1,601,877,094</u>	<u>\$5,279,855,151</u>
<u>SOURCE OF FUNDS</u>			
Federal Assistance	\$2,281,608,213	\$ 399,517,297	\$1,882,090,916
Bond Proceeds	<u>4,600,124,032</u>	<u>1,202,359,797</u>	<u>3,397,764,235</u>
TOTAL SOURCE OF FUNDS	<u>\$6,881,732,245</u>	<u>\$1,601,877,094</u>	<u>\$5,279,855,151</u>

Budgetary Matters

The Act requires that expenses of the Authority shall be in accordance with an itemized budget. The Act provides for the Authority to submit each year its projected budget to the Secretary and the Advisory Board. The Secretary is required to review and make recommendations regarding the budget. The Advisory Board is required to approve the budget as submitted or subject it to itemized reductions. The Act provides that the budget governs the current expenses of the Authority during the year and no such expenses may be incurred in excess of those shown in the budget. The budget may from time to time be amended by the preparation and submission by the Authority to the Secretary and the Advisory Board of supplemental budgets, which the Secretary is required to review, and the Advisory Board is required either to approve as submitted or subject such supplemental budgets to itemized reductions.

Fiscal Year Change

From 1971 until 1983, all fiscal arrangements of the Authority were on a calendar year basis. Under this arrangement the Authority's budget was adopted for the calendar year and the Net Cost of Service, after computation and certification to the Commonwealth on a calendar year basis, was funded by appropriations by the Commonwealth and assessments on the cities and towns which were made in the fiscal year commencing each July 1 following the applicable calendar year of the Authority. Legislation enacted in 1980, however, stipulated that as of July 1, 1983 the Authority's fiscal year change from the calendar year to a July 1-June 30 fiscal year to coincide with the fiscal year of the Commonwealth and its cities and towns.

As a result, the Authority's budgetary procedures have been conducted on a fiscal year basis. Under other specific provisions of the Act, however, the Authority continued to certify the Net Cost of Service on a calendar year basis consistent with past practice.

Recent Budgets

The first of the following tables shows the Authority's calendar year 1995, 1996, 1997, 1998, and 1999 income and expenses, the calculation of the Net Cost of Service and the net amount of the assessments on the cities and towns relating to those years. The 1999 figures are estimated.

The second table shows the Authority's fiscal year 1996, 1997, 1998, 1999 and 2000 income and expenses. The first four columns are based on the Authority's actual income and expense figures for its 1996, 1997, 1998 and 1999 fiscal years. Fiscal year 2000 is projected.

The amounts shown in the following tables reflect the accounting procedures required by the Act to determine the Authority's Net Cost of Service. Since these procedures differ in certain respects from generally accepted accounting principles, the amounts shown for income and expense items may differ from the corresponding items in the Authority's audited financial statements. See Appendix C.

**SUMMARY OF INCOME AND EXPENSES
AND NET COST OF SERVICE CALENDAR YEARS: 1995 - 1999**

	1995	1996	1997	1998	(Unaudited) 1999
<u>INCOME</u>	<u>Operations</u>	<u>Operations</u>	<u>Operations</u>	<u>Operations</u>	<u>Operations</u>
Revenue from Transportation	\$146,985,335	\$147,687,151	\$152,753,946	\$157,039,196	\$158,836,268
Revenue from Railway Operations	17,301,718	21,825,704	21,167,901	25,703,807	26,998,757
Non-Operating Income	6,622,957	6,422,834	15,183,714	10,729,097	10,590,843
TOTAL INCOME	\$170,910,010	\$175,935,689	\$189,105,561	\$193,472,100	\$196,425,868
<u>EXPENSES</u>					
OPERATING WAGES AND FRINGE BENEFITS					
Wages	\$239,251,385	\$241,052,950	\$245,593,671	\$260,111,509	\$288,802,378
Fringe Benefits:					
MBTA Pensions	29,100,173	31,128,036	31,347,451	33,936,516	30,299,282
Healthcare Insurance	45,999,176	42,128,291	44,811,863	49,853,218	49,534,428
Group Life Insurance	912,205	901,444	874,845	933,665	1,046,613
Accident/Sickness Insurance	512,330	542,526	577,874	531,075	188,137
Workers' Compensation	7,358,958	6,856,469	6,060,264	8,975,960	9,807,375
Other Fringes	(735,424)	878,417	134,113	173,989	256,019
TOTAL FRINGE BENEFITS	\$ 83,147,418	\$ 82,435,183	\$ 83,806,410	\$ 94,404,423	\$ 91,131,854
Payroll Taxes:					
FICA Employer	19,319,994	18,596,020	18,866,934	19,615,552	22,388,377
Unemployment Insurance	1,079,710	1,021,591	546,338	473,810	356,634
TOTAL PAYROLL TAXES	\$ 20,399,704	\$ 19,617,611	\$ 19,413,272	\$ 20,089,362	\$ 22,745,011
OTHER EXPENSES:					
Materials, Supplies, Services, Fuel & Other	76,634,735	74,697,331	75,370,932	88,950,496	94,402,763
Casualty & Liability	12,710,550	12,597,142	9,934,051	11,379,205	8,634,333
Commuter Rail Subsidy	59,957,187	53,756,385	68,646,761	63,012,810	96,667,080
Local Service Subsidy	19,094,533	18,910,548	21,291,585	22,998,044	24,008,549
Taxes	1,651,225	1,526,937	1,736,809	1,618,791	1,796,013
Financial Service Charges	2,432,048	1,011,697	1,474,389	1,594,334	1,265,285
TOTAL OPERATING EXPENSES	172,480,278	162,500,040	178,454,527	189,553,680	226,774,023
TOTAL OPERATING EXPENSES AND WAGES	515,278,785	505,605,784	527,267,880	564,158,974	629,453,266
DEBT SERVICE - INTEREST EXPENSE					
Interest Unfunded Debt	14,322,594	13,127,455	11,766,998	11,952,600	10,523,556
Interest Funded Debt MTA	3,387,585	2,743,299	2,502,254	2,310,617	2,084,490
Interest Funded Debt MBTA	134,305,910	155,005,461	165,839,749	177,488,567	181,261,500
TOTAL INTEREST EXPENSE	152,016,089	170,876,215	180,109,001	191,751,784	193,869,546
DEBT SERVICE - PRINCIPAL EXPENSE					
Funded Debt MTA	2,629,744	2,954,250	2,818,000	2,784,250	2,724,835
Funded Debt MBTA	86,686,402	96,124,280	107,418,451	109,220,320	116,169,410
TOTAL PRINCIPAL EXPENSE	89,316,146	99,078,530	110,236,451	112,004,570	118,894,245
TOTAL DEBT SERVICE COSTS	241,332,235	269,954,745	290,345,452	303,756,354	312,763,791
TOTAL EXPENSES	756,611,020	775,560,529	817,613,332	867,915,328	942,217,057
EXPENSES IN EXCESS OF INCOME	585,701,010	599,624,840	628,507,771	674,443,228	745,791,189
<u>CALCULATION OF NET COST OF SERVICE</u>					
EXPENSES IN EXCESS OF INCOME	585,701,010	599,624,840	628,507,771	674,443,228	745,791,189
Less: Federal Operating Assistance	13,404,006	8,105,509	7,138,139	6,085,600	6,500,000
NET COST OF SERVICE	572,297,004	591,519,331	621,369,632	668,357,628	739,291,189
Less:					
Section 28 Contract Assistance	208,709,216	237,658,762	253,196,321	264,590,560	270,935,308
State Financial Contract Assistance (RR)	13,875,294	13,955,676	14,374,529	13,978,283	6,989,142
General Contract Assistance	226,952,500	215,268,911	225,570,984	257,235,051 (1)	328,813,005
	<u>449,537,010</u>	<u>466,883,349</u>	<u>493,141,834</u>	<u>535,803,894</u>	<u>606,737,455</u>
PORTION OF NET COST OF SERVICE FOR ASSESSMENT BY STATE (2)	\$122,759,994	\$124,635,982	\$128,227,798	\$132,553,734	\$132,553,734

(1) The Commonwealth's fiscal year 2000 budget contains appropriations, together with other prior appropriations, sufficient to provide this amount of General Contract Assistance.

(2) Excludes interest and other charges incurred in state borrowings, which were \$11,472,518 for 1995, \$12,952,344 for 1996, \$12,800,235 for 1997, \$12,000,000 for 1998, and are estimated to be \$12,000,000 for 1999, and Boston Metropolitan District expenses of \$25,000 in each year through 1999.

SUMMARY OF INCOME AND EXPENSES
FISCAL YEARS 1996, 1997, 1998 1999 and 2000

	Fiscal 1996 Operations	Fiscal 1997 Operations	Fiscal 1998 Operations	Fiscal 1999 Operations	Projected Fiscal 2000 Operations (a)
Revenue from Transportation	\$148,156,643	\$149,037,837	\$155,190,947	\$156,019,412	\$165,080,000
Revenue from Railway Operations	19,178,516	21,439,465	24,999,153	24,692,717	25,521,121
Non-Operating Income	8,030,279	6,082,255	15,318,900	15,388,412	5,264,000
TOTAL INCOME	\$175,365,438	\$176,559,557	\$195,509,000	\$196,100,541	\$195,865,121
OPERATING WAGES AND FRINGE BENEFITS					
Wages	\$240,328,600	\$242,549,744	\$247,641,361	\$281,339,617	\$286,521,260
Fringe Benefits:					
MBTA Pensions	29,548,288	30,189,228	33,119,332	31,703,451	33,958,443
Healthcare Insurance	41,225,778	45,385,249	47,890,452	48,974,445	52,157,603
Group Life Insurance	914,615	947,682	850,267	1,011,047	1,142,052
Accident/Sickness Insurance	515,648	630,952	539,753	352,768	67,939
Workers' Compensation	6,569,131	5,857,023	8,536,628	9,462,040	9,761,082
Other Fringes	192,454	17,683	147,478	225,594	245,245
TOTAL FRINGE BENEFITS	\$78,965,914	\$83,027,817	\$91,083,910	\$91,729,345	\$97,332,364
Payroll Taxes:					
FICA Employer	17,930,463	18,791,305	19,014,960	21,276,824	22,880,593
Unemployment Insurance	1,167,184	818,453	440,306	438,097	487,449
TOTAL PAYROLL TAXES	\$19,097,647	\$19,609,758	\$19,455,266	\$21,714,921	\$23,368,042
OTHER EXPENSES:					
Materials, Supplies, Services, Fuel & Other	73,848,589	78,657,736	82,046,097	96,809,298	94,486,393
Casualty & Liability	10,739,030	11,115,020	11,434,824	10,496,940	10,239,158
Commuter Rail Subsidy	51,110,126	61,162,847	73,090,968	81,563,666	86,878,402
Local Service Subsidy	17,162,995	21,106,072	22,684,623	23,730,235	26,165,876
Taxes	1,561,082	1,751,904	1,728,495	1,775,655	1,800,000
Financial Service Charges	1,652,915	1,527,296	1,627,135	1,341,812	1,298,000
TOTAL OPERATING EXPENSES	\$156,074,737	\$175,320,875	\$192,612,142	\$215,717,606	\$220,867,829
TOTAL OPERATING EXPENSES AND WAGES	\$494,466,898	\$520,508,194	\$550,792,679	\$610,501,489	\$628,089,495
DEBT SERVICE - INTEREST EXPENSE					
Interest Unfunded Debt	\$13,733,952	\$12,158,465	\$11,806,969	\$11,138,428	\$10,573,261
Interest Funded Debt MTA	2,794,205	2,626,932	2,383,446	2,231,194	1,943,367
Interest Funded Debt MBTA	148,104,003	159,875,769	173,605,424	181,228,786	185,810,360
TOTAL INTEREST EXPENSE	\$164,632,160	\$174,661,166	\$187,795,839	\$194,598,408	\$198,326,988
DEBT SERVICE - PRINCIPAL EXPENSE					
Funded Debt MTA	\$2,979,000	\$2,880,750	\$2,796,500	\$2,755,750	\$2,681,833
Funded Debt MBTA	90,501,434	102,193,012	110,509,865	113,402,625	119,576,341
TOTAL PRINCIPAL EXPENSE	\$93,480,434	\$105,073,762	\$113,306,365	\$116,158,375	\$122,258,174
TOTAL DEBT SERVICE COSTS	\$258,112,594	\$279,734,928	\$301,102,204	\$310,756,783	\$320,585,162
TOTAL EXPENSES	\$752,579,492	\$800,243,122	\$851,894,883	\$921,258,272	\$948,674,657
EXPENSES IN EXCESS OF INCOME	\$577,214,054	\$623,683,565	\$656,385,883	\$725,157,731	\$752,809,536

(a) The projected Fiscal 2000 Operating Expenses includes a transfer of \$4,709,196 from savings in Debt Service costs. The MBTA Board of Directors has approved and the MBTA Advisory Board is expected to approve this transfer request.

Fares

The Authority's fares for its services are as follows: local bus - \$0.60, subway - \$0.85, express bus - \$1.50, commuter rail - depending upon the zone (measured by distance traveled), senior citizens and persons with disabilities - \$0.15 for local buses and \$0.20 for the subway, and "The Ride" - \$1.00. The monthly local bus pass rate is \$20; the commuter rail pass prices depend upon the zone; and subway pass prices are \$27. There have been no fare increases since 1991.

State and Federal Assistance Payments

Both the Authority and its predecessor, the MTA, have provided transportation services to the various Greater Boston communities comprising the respective authorities on such a basis as to result in substantial annual deficits which of necessity have been paid from sources other than transit revenues.

The Authority's operations result in an annual Net Cost of Service for which provision has been provided for in the Act. Net Cost of Service is defined in the Act as the difference between (a) all income received by the Authority, including but not limited to revenues from the operations of the transit system, advertising, parking, sale of capital assets in the ordinary course of business, and gifts and grants for current purposes (including federal operating assistance, which is discussed below), and (b) all current expenses including, but not limited to, expenses for operations, wages, contracts for service by others, maintenance, debt service, taxes and rentals.

As discussed below in more detail, the Act requires the Authority to notify the State Treasurer of the amount of the Net Cost of Service for each year. Upon notification of such amount, under Section 12 of the Act, the Commonwealth is obligated to pay over to the Authority an amount equal to said Net Cost of Service. The Act provides that subsequent to payment of the Net Cost of Service to the Authority, the portion of the Net Cost of Service not funded by the Commonwealth through Section 28 Contract Assistance or General Contract Assistance (defined below), together with any temporary borrowing costs incurred by the State Treasurer to finance advancing the Net Cost of Service to the Authority, is assessed upon the cities and towns which make up the Authority, in accordance with a complex formula which takes into account the type and location of the Authority's services. The obligation of the Commonwealth to make payments under Section 12 and 13 is not, however, in any way conditional upon the payment of such assessments by the cities and towns. The constitutionality of the assessment formula (as originally enacted) was upheld by the Massachusetts Supreme Judicial Court in 1965 and (as amended in certain respects) in 1975. See "Assessments by the Commonwealth upon Cities and Towns."

Commencing July 1, 2000 the Commonwealth will no longer be liable to pay the Net Cost of Service but will support the Authority's operating costs and debt service through a dedicated revenue stream. See "Forward Funding".

Section 28 Contract Assistance and Additional Contract Assistance

One of the forms in which the Commonwealth itself pays a portion of the Net Cost of Service is by payment of Section 28 Contract Assistance. Section 28 of the Act provides that the Commonwealth, acting by and through its Executive Office for Administration and Finance, may enter into a contract or contracts with the Authority providing that a portion of the Net Cost of Service which relates to debt service on the Authority's indebtedness shall be paid by the Commonwealth and not assessed upon the cities and towns. The Authority and the Commonwealth have entered into a Contract for Financial Assistance dated December 31, 1964, as amended through October 28, 1996 under which this assistance authorized by Section 28 of the Act is made available to the Authority. Section 28 Contract Assistance under such Contract is limited to:

- (a) with respect to indebtedness incurred prior to January 1, 1971, the annual debt service on 90% of the bonds issued for the acquisition of facilities and equipment for Express Service (as defined in the Act) and 50% of the bonds issued either for the acquisition of facilities and equipment for Local Service (as defined in the Act) or for the granting of relief to private companies injured by competition of the Authority;

(b) with respect to indebtedness incurred after January 1, 1971, the annual debt service on 90% of the bonds and the interest on 90% of the bond anticipation notes issued by the Authority, but not exceeding under (a) and (b) together, as to bonds, the annual debt service on \$4,272,207,500 aggregate principal amount of bonds outstanding at any one time; and

(c) not more than \$3,000,000 annually to pay interest, principal and sinking fund requirements due upon obligations incurred or assumed by the Authority and issued to finance or refinance mass transportation facilities or equipment for Express Service. This indebtedness includes obligations issued by the Boston Metropolitan District, for the payment of which the Authority is responsible.

The Contract for Financial Assistance provides that the Authority shall designate by resolution the particular bond and bond anticipation note issues the debt service or interest of which is to be included in the measure of Contract Assistance under (b) above. The Authority must also obtain a finding by the Secretary that the designation is in accordance with the Commonwealth's overall transportation policies and priorities. Such designations are then subject to approval by the Executive Office for Administration and Finance of the Commonwealth. An approval by said Executive Office may not be revoked while the bonds to which such designation applies are outstanding under the General Resolution.

All of the Bonds will, pursuant to Designations of Bond Issue for Contract Assistance, be included in the measure of such Section 28 Contract Assistance in the amount of 90% of the debt service thereof under (b) above.

The amount of bonds, heretofore issued and including the Bonds, taken into account in applying the \$4,272,207,500 limit referred to above will upon issuance of the Bonds be approximately \$3.25 billion.

It has been the practice of the Commonwealth to include in its annual budget an appropriation equal to the amount of Section 28 Contract Assistance due during such year, after taking into account other funds or revenues of the Authority estimated to be available to pay debt service. The Contract for Financial Assistance itself provides that the Commonwealth shall not be obligated to appropriate funds other than a certain portion of the state cigarette excise tax for such Section 28 Contract Assistance. To the extent that debt service of the Authority is not in fact met from Section 28 Contract Assistance, such debt service is to be included in the Net Cost of Service to be funded in accordance with the mechanisms described below. Bonds of the Authority are also entitled to other security discussed in the section of this Official Statement headed "Security For and Payment of the Bonds." See also "Long-Term Leases."

In addition to Section 28 Contract Assistance for debt service, the Commonwealth, acting by and through the Executive Office for Administration and Finance, is authorized to provide, to the extent appropriated, additional contract assistance ("Additional Contract Assistance" or "General Contract Assistance") to the Authority. Additional Contract Assistance reduces the amount of the Net Cost of Service to be assessed upon the cities and towns. Proposition 2 1/2 provides that the annual increase in the total assessments on the cities and towns included in the Authority on account of its operations is limited to 2.5% of the prior year's assessments. To the extent that operations of the Authority would result in assessments in excess of the limitation permitted by Proposition 2 1/2, it is anticipated that, unless the legislature were to exercise its power to amend this provision of Proposition 2 1/2, the Commonwealth would appropriate Additional Contract Assistance in an amount required to comply with the 2.5% limitation. See "Assessments by the Commonwealth Upon Cities and Towns."

Assistance from the Commonwealth in meeting the Net Cost of Service is also provided pursuant to Commonwealth programs in support of the Authority's commuter rail operations. For calendar year 1999 the amount of such assistance is estimated to have been \$7.0 million.

Commencing July 1, 2000, the Commonwealth's contract assistance obligations will be funded from a dedicated revenue stream. See "Forward Funding."

Federal Operating Assistance

TEA-21 was passed by Congress and signed into law in the summer of 1998. This legislation replaced Section 9 Operating Assistance with preventative maintenance funding under the Section 5307 Urbanized Area Formula Program. These federal funds may be used for preventative maintenance costs such as bus/rail car maintenance, station cleaning, etc. The total of such funds for calendar year 1998 was \$6.1 million.

Assessments by the Commonwealth Upon Cities and Towns

The Net Cost of Service not provided for by Section 28 Contract Assistance or by an appropriation for Additional Contract Assistance or by other state assistance has been assessed for each year in accordance with a formula, as indicated above, upon the cities and towns in the Authority's territory. Effective July 1, 2000 the MBTA's new enabling act expands the number of cities and towns required to pay assessments but reduces the aggregate amount of the assessments to approximately \$136 million to be phased in over five years. Both under the existing Act and the new enabling act, the State Treasurer is required to reduce amounts distributable to cities and towns from the Commonwealth by the amount of all assessments due the Commonwealth from such cities and towns, including assessments relating to the Authority. In the event any assessment on a city or town exceeds the amount distributable to it from the Commonwealth, such city or town must pay the amount of such excess to the State Treasurer in accordance with a schedule to be established by the Executive Office for Administration and Finance. There is a penalty of one percent per month on delinquent payments and provision is made for court proceedings against the delinquent city or town. The State Treasurer is empowered to deduct an unpaid assessment from any amount otherwise payable to the city or town and to apply that amount to payment of the assessment. Under the laws of the Commonwealth, local aid payable to a city or town may be used or intercepted in certain circumstances to satisfy certain obligations of the city or town. To the extent a city or town in the Authority's territory has obligations under such laws, or owes other assessments to the Commonwealth, the State Treasurer might not be able to offset state aid against an unpaid Authority assessment. A 1975 opinion of the Attorney General of the Commonwealth states that the proceeds of such assessments may be applied to payment of notes issued by the Commonwealth under Section 12 without further appropriation. The assessment proceeds will, however, be general funds of the Commonwealth when received, and no lien has been created thereon to secure the payment of such notes in priority to other claims against the Commonwealth then or theretofore coming due.

For the years ended December 31, 1995 through 1999, the amounts assessed on the cities and towns (calculated as indicated) were as follows:

Year Ended December 31	Cost of Service in Excess of Income	Less: Federal Operating Assistance	Less: Section 28 Contract Assistance (1)	Less: Additional Contract Assistance and Other State Assistance (2)	Subtotal	Interest and other Charges (3)	Amount Assessed or to be Assessed
1995	\$585,701,010	\$13,404,006	\$208,709,216	\$240,827,794	\$122,759,994	\$11,497,518	\$134,257,512
1996	599,624,840	8,105,509	237,658,762	229,224,587	124,635,982	12,977,344	137,613,326
1997	628,507,771	7,138,139	253,196,321	239,945,513	128,227,798	12,825,235	141,053,033
1998	674,443,228	6,085,600	264,590,560	271,213,334 ⁽⁴⁾	132,553,734	12,025,000	144,578,734
1999 (estimated)	745,791,189	6,500,000	270,935,308	335,802,147 ⁽⁵⁾	132,553,734	12,025,000	144,578,734

- (1) Contract assistance under Section 28 of the Act for payment of a portion of debt service on certain of the Authority's indebtedness.
- (2) Additional General Contract Assistance and other state assistance provided by the Commonwealth.
- (3) Includes interest and other charges incurred in borrowings by the Commonwealth and Boston Metropolitan District expenses of \$25,000 in each year.
- (4) The Commonwealth's fiscal year 2000 budget contains appropriations, together with other prior appropriations, sufficient to provide this amount of General Contract Assistance.
- (5) This amount assumes that the legislature will appropriate General Contract Assistance in the amount necessary to limit assessment on the cities and towns in the territory of the Authority to the amount set forth in the Commonwealth's fiscal year 2000 budget. See "Forward Funding."

The cities and towns upon which assessments are made vary considerably as to size, assessed valuation and degree of obligation for the assessments levied by the Commonwealth on account of the Authority's Net Cost of Service. The estimated assessments on the cities and towns on account of the 1998 calendar year Net Cost of Service in the amount of \$144,578,734 are estimated as follows (each municipality to which 2% or more of the aggregate assessments applies is separately shown):

<u>City or Town</u>	<u>Estimated Amount</u>	<u>Percent</u>
Boston.....	\$ 61,977,282	42.87%
Cambridge.....	6,780,692	4.69
Brookline.....	5,074,094	3.51
Somerville.....	4,859,926	3.36
Newton.....	4,955,160	3.43
Medford.....	3,872,065	2.68
Quincy.....	3,638,740	2.52
Malden.....	3,374,791	2.33
Revere.....	3,122,759	2.16
All other 69 Cities and Towns.....	<u>46,923,225</u>	<u>32.45</u>
	<u>\$144,578,734</u>	<u>100.00%</u>

Because the percentage shares vary from year to year on the basis of a number of factors, the relative shares of the assessments for subsequent years may not be exactly the same as those indicated above for the 1998 calendar year Net Cost of Service.

Indebtedness

The Authority currently is authorized by law to issue bonds, for capital purposes, other than refunding, and for certain specified purposes, to an amount not exceeding the aggregate amount of \$5,068,130,000 outstanding at any time. Such bonds are considered outstanding for debt limit purposes until actually paid at maturity or earlier redemption, and, for purposes of calculating the outstanding amount, take into account premium or discount, if any, on such bonds. Such bonds are outstanding as of March 3, 2000 in the amount of \$2,434,205,106 with a face amount of \$2,484,560,000. The Authority is also authorized to issue bonds for the purpose of refunding bonds. Such refunding bonds are outstanding as of March 3, 2000 in the amount of \$1,999,075,000. The Authority is further authorized to issue temporary notes for operating purposes and such notes are outstanding as of March 3, 2000 in the amount of \$160,000,000, which mature on September 1, 2000. Upon maturity, these notes are expected to be paid by the Commonwealth. See "Forward Funding." The Authority is further authorized to issue notes in anticipation of bonds. There are \$55,000,000 of such notes with various maturities in the form of commercial paper outstanding as of March 3, 2000.

MBTA Principal and Interest

The following table sets forth the annual calendar year debt service requirements on Authority Bonds, excluding the 2000 Bonds (assuming an estimated interest rate of 7% per annum for variable rate bonds) and excluding refunded bonds:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2000	\$ 96,555,000	\$ 180,729,608	\$ 277,284,608
2001	106,910,000	183,688,629	290,598,629
2002	113,130,000	178,103,793	291,233,793
2003	121,440,000	172,071,593	293,511,593
2004	125,655,000	165,589,903	291,244,903
2005	129,945,000	158,739,156	288,684,156
2006	138,470,000	151,484,871	289,954,871
2007	136,000,000	143,827,122	279,827,122
2008	139,305,000	135,898,053	275,203,053
2009	135,095,000	127,980,787	263,075,787
2010	141,980,000	119,883,919	261,863,919
2011	148,440,000	111,347,735	259,787,735
2012	148,450,000	102,727,082	251,177,082
2013	151,535,000	93,962,125	245,497,125
2014	150,455,000	85,097,138	235,552,138
2015	133,570,000	76,919,064	210,489,064
2016	122,900,000	69,790,714	192,690,714
2017	122,035,000	63,214,883	185,249,883
2018	123,625,000	56,715,846	180,340,846
2019	130,175,000	49,976,482	180,151,482
2020	136,025,000	42,911,422	178,936,422
2021	143,185,000	35,562,555	178,747,555
2022	130,565,000	28,466,392	159,031,392
2023	109,655,000	22,395,525	132,050,525
2024	104,615,000	17,023,102	121,638,102
2025	95,895,000	12,003,988	107,898,988
2026	73,205,000	7,758,537	80,963,537
2027	49,855,000	4,634,125	54,489,125
2028	26,135,000	2,638,575	28,773,575
2029	12,675,000	1,566,600	14,241,600
2030	13,435,000	806,100	14,241,100
TOTAL	<u>\$3,510,915,000</u>	<u>\$2,603,515,424</u>	<u>\$6,114,430,424</u>

In addition to the foregoing obligations of the Authority, the Authority is also responsible for the payment of obligations issued by the Boston Metropolitan District (hereinafter called the "BMD"). The BMD was created in 1929 to serve as a vehicle for the public financing required for transportation facilities in Boston and the thirteen other cities and towns comprising the inner core of the Metropolitan Area. Initially the BMD issued bonds on behalf of the Boston Elevated Railway Company. After the Boston Elevated Railway Company was succeeded in 1947 by the MTA, the BMD served the same purpose for the MTA. The \$33,471,000 BMD obligations outstanding on February 1, 2000, while general obligations of the entire area comprising the BMD, are primarily secured by bonds of the MTA, issued to BMD, or by contractual obligations of the Authority to BMD. When the Authority was created in 1964 to succeed the MTA all of the debts of MTA were assumed by the Authority. Accordingly, the Authority is now obligated to pay the BMD annual amounts sufficient to pay debt service on its debt obligations held by the BMD. The debt service on these obligations is taken into account in computing the Authority's Net Cost of Service. All financing for new construction or improvements to the transportation facilities is done by the Authority. The BMD will not issue debt other than periodic refunding issues which will be necessary from time to time in order to level out the maturities of its debt and to correlate its debt maturities with the Authority's principal obligations to it.

The following table sets forth the annual calendar year debt service requirements of the Authority on its obligations to the BMD as of February 1, 2000.

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2000	\$ 2,646,000	\$ 2,008,492	\$ 4,654,492
2001	2,674,000	1,854,290	4,528,290
2002	2,641,000	1,696,413	4,337,413
2003	2,260,000	1,531,218	3,791,218
2004	2,250,000	1,370,843	3,620,843
2005	2,250,000	1,244,060	3,494,060
2006	2,250,000	1,114,468	3,364,468
2007	2,250,000	982,248	3,232,248
2008	2,250,000	847,608	3,097,608
2009	2,000,000	710,225	2,710,225
2010	2,000,000	594,290	2,594,290
2011	2,000,000	476,503	2,476,503
2012	2,000,000	364,961	2,364,961
2013	2,000,000	253,273	2,253,273
2014	<u>2,000,000</u>	<u>126,665</u>	<u>2,126,665</u>
Total	<u>\$33,471,000</u>	<u>\$15,175,557</u>	<u>\$48,646,557</u>

Long-Term Leases

The Authority has entered into five long-term leases providing for the lease of equipment to the Authority. Under the terms of such leases the Authority is required to make annual rental payments of approximately \$14.0 million in the years 1999 to 2013. Pursuant to Section 28 of the Act, the Authority has entered into agreements with the Commonwealth, acting by and through its Executive Office for Administration and Finance, whereby the Commonwealth has agreed, subject to appropriation, to pay to the Authority Contract Assistance equal to 90% of the annual rental payments due under the leases.

Financial Statements

See Appendix B for audited financial statements of the Authority as of June 30, 1999 and June 30, 1998.

The Act also requires the Department of the State Auditor biennially to audit the accounts of the Authority. Copies of audit reports may be obtained from the State Auditor's Office, State House, Boston, Massachusetts 02133.

Retirement Plan

The Retirement Plan is a product of negotiation with Local 589, the union representing nearly 3,600 Authority employees. Local 589 negotiates with the Authority on behalf of all members, both Local 589 members and non-Local 589 members. The Authority's contribution to the plan has been 12.0135%; under the new collective bargaining agreement the rate will be 10.4201% of compensation, with employees' contributions at 4.0%. The total cost of the plan to the Authority for the past several years and the actual dollar amounts contributed are as follows:

1998	\$31,340,124
1997	30,572,292
1996	31,090,039
1995	30,018,930
1994	33,933,872
1993	32,225,519
1992	31,718,517
1991	33,986,579

The actuarial pension liability of the plan is the estimated present value of all benefits to be paid to existing pensioners and current employees less the present value of future normal costs of the plan (the level, ongoing cost of the plan excluding any past deficiency). The unfunded actuarial pension liability is the amount by which the actuarial pension liability exceeds the accumulated assets of the plan and represents the amount that would have to be contributed in the future in addition to annual normal costs in order for the plan to be fully funded. As of December 31, 1998, the date of the most recent actuarial valuation, the present value of all benefits to be paid under the plan to existing pensioners and current employees was \$1,718,930,781 and the present value of future normal costs of the plan was \$308,177,171 leaving an actuarial pension liability of \$1,410,753,610. Since the adjusted value of the fund assets as of December 31, 1998 was \$1,389,496,226, the unfunded actuarial pension liability of the plan as of such date was \$21,257,384. As of December 31, 1998, the actuarially computed value of vested benefits (the present value of all benefits which had vested on such date) was \$1,096,154,800 or \$293,341,426 less than the adjusted value of fund assets. The market value of fund assets as of December 31, 1998 was \$1,706,882,081. Estimates of actuarial liabilities depend on the underlying actuarial assumptions and reference is made to the most recent actuarial report (dated as of December 31, 1998) relating to the plan for a description of those assumptions.

The Authority has also entered into agreements with certain salaried employees to provide a supplemental deferred compensation retirement benefit. In order to receive the benefits, an employee must have at least ten years of service and be eligible for retirement under the provisions of the contributory pension plan. In calendar year 1998 the expenditure for such supplemental pensions was \$3.18 million.

The Authority also has a defined contribution retirement plan for executive and unaffiliated employees which is an alternative to the Retirement Plan. Authority contributions made to this plan were \$681,800 in calendar year 1998.

The Authority is also obligated to pay life and medical insurance costs and other benefits to retired employees. In calendar year 1998 the expenditures for these benefits were \$26.0 million.

In addition, the Authority has negotiated a separate pension plan for its Police Association which is divided into two separate bargaining units, the Patrolmen and the Sergeants associations, both of which are covered by the Police Retirement Plan, which became effective January 1, 1984. It is also a contributory plan, with the Authority currently contributing 11.03% of compensation and employees 4.17%. There are currently approximately 185 individuals covered by this pension plan. The cost of the plan to the Authority in calendar year 1998 was \$954,271.

Copies of the most recent actuarial report, the annual reports of the Retirement Plan may be obtained from John J. Gallahue, Executive Director, Massachusetts Bay Transportation Authority Retirement Fund, Suite 1700, 99 Summer Street, Boston, Massachusetts 02110. Copies of the annual report of the MBTA Police Association Retirement Plan may be obtained from Sidney L. Chase, Executive Director, Massachusetts Bay Transportation Authority Police Association Retirement Plan, P.O. Box 6807, Broad and Water Streets, Boston, Massachusetts 02102.

Employee Relations

As of February 1, 2000, the Authority employed approximately 5,800 full-time and approximately 600 part-time employees. The Act gives the Board the authority to bargain collectively with labor organizations representing employees of the Authority, with arbitration as the final step if the parties are unable to reach a negotiated settlement, and to enter into agreements with such organizations relative to the wages, salaries, hours, working conditions, health benefits, pensions and retirement allowances of such employees. The Act provides, however, that the directors shall have no right to enter into collective bargaining agreements with respect to matters of inherent management rights. As defined in the Act, some of those rights include the right to direct, appoint and employ employees, to classify the various positions of the Authority and ascribe duties and standards of productivity therefor, to use part-time employees, to assign and apportion overtime, and to determine whether goods or services should be competitively acquired. A November, 1995 amendment to the Act provides for prospective negotiation over the use of seniority in assignment and promotion decisions.

New collective bargaining and pension agreements covering the period between July 1, 1997 and June 30, 2002 have been reached with Local 589, the Union representing nearly 3,600 of the Authority's employees. This labor agreement was submitted and approved by the Board on October 15, 1998. The five (5) year contract provides for wage increases in accordance with the following schedule: July 1, 1997 - 3.0%; July 1, 1998 - 4.0%; July 1, 1999 - 4.0%; July 1, 2000 - 3.0%; and July 1, 2001 - 4.0%. The July 1, 2000 increase will be calculated at 5.0% in the event Local 589 members vote to replace the Blue Cross/Blue Shield Master Health indemnity plan with a preferred provider organization (PPO). Also effective January 1, 1999, new hire employees are no longer permitted to select the indemnity plan.

In addition, other benefit and contract changes include: the elimination of the Sickness and Accident Benefit Plan in lieu of improved Dental Insurance coverage; deletion of the fifteen thousand dollar (\$15,000) life insurance policy which included a nine thousand dollar (\$9,000) permanent and total disability provision, and addition of a twenty-five thousand dollar (\$25,000) life insurance policy excluding the disability rider; increases in the death benefit insurance for retirees from two thousand dollars (\$2,000) to five thousand dollars (\$5,000).

Also, the contract provides for insertion of language, by means of a side letter, with respect to job security and privatization which states that the Authority is not planning to privatize or subcontract work performed by Local 589 members, both currently as well as over the term of this Agreement (See "Competitive Contracting Initiatives").

The pension agreement produces a reduction in the Authority's ongoing contribution to the Retirement Plan from the current 12.0135% of straight pay to 11.4841% on July 1997 and 10.4201% on July 1998. The new agreement specifies the following improvements: an improvement in the multiplier from 2.29% to 2.36%; an increase in the membership service allowance from 72% to 73% of average compensation; and pension benefit improvements ranging from 3% to 15% for existing retirees.

To date, agreements have been reached with the MBTA Police Sergeants Association; Local 651, International Brotherhood of Boilermakers, Iron Ship Builders, Blacksmiths, Forgers and Helpers, Local 717, International Brotherhood of Electrical Workers; Local 453, Office and Professional Employees' International Union; Local 3, International Brotherhood of Firemen and Oilers; Local 104, International Brotherhood of Electrical Workers; Local 600, MBTA Inspectors' Union; and Local 6, Office and Professional Employees International Union, all agreeing to terms similar to those reached with Local 589 for the period July 1, 1997 through June 30, 2002. Agreement has also been reached with the Building and Construction Trades Council of the Metropolitan District, agreeing to similar terms as those reached with Local 589 for the period July 1, 1998 through June 30, 2003. The Authority is negotiating with other unions not currently under a labor contract.

Litigation

The Authority's General Counsel is not aware of any cases, other than the cases mentioned below, that are material to the financial information concerning the Authority contained herein.

In 1995, the MBTA's Police Officers and Sergeants filed a class action suit challenging the Authority's federally mandated Drug and Alcohol Policy and Testing Program, and the Massachusetts Superior Court enjoined enforcement of the Policy as to MBTA Police. The parties filed cross motions for summary judgment which the court took under advisement. On March 20, 1998, the Federal District Court decided this case in favor of the MBTA, finding its drug testing program meets constitutional standards and that federal drug testing requirements preempt the Massachusetts State Constitution. The plaintiffs have filed an appeal from this decision. The MBTA's attorneys are confident that the First Circuit Court of Appeals will affirm the District Court's judgment.

The Authority is also engaged in numerous matters of routine litigation. These matters include tort and other claims where the Authority's liability is in whole or in part self-insured. In the opinion of the Authority's General Counsel, these matters are not reasonably expected to require amounts to be paid which in the aggregate would be material to the financial information contained herein. Other cases and claims include disputes with contractors, and others, arising out of the Authority's capital construction program. In the opinion of the Authority's General Counsel, any amounts reasonably expected to be paid by the Authority would be within the scope of grant

funds and other moneys available to the Authority for the respective projects.

Legislation

Legislation is periodically filed in the state legislature relating to the Authority. Such bills are, of course, subject to the legislative process and no prediction can be made as to whether or not such bills will be enacted into law. In addition, any such legislation enacted subsequent to the issuance of the 2000 Bonds would with respect to the 2000 Bonds be subject to the provisions of Article 1, Section 10 of the United States Constitution prohibiting any law impairing the obligation of contracts and therefore could not unconstitutionally impair the contract of the holders of the 2000 Bonds.

Forward Funding

On November 16, 1999, the Governor approved legislation containing "forward funding" provisions for the MBTA and rewriting the MBTA's enabling act. The legislation was enacted as part of the Commonwealth's annual appropriations act for fiscal 2000. Under the new enabling act, which will take effect July 1, 2000, the Commonwealth's annual obligation to support the MBTA for operating costs and debt service will be limited to a portion of the revenues raised by the Commonwealth's sales tax, to be funded from existing sales tax receipts. The sales tax amount, generally the amount raised by a 1% sales tax with an inflation-adjusted floor, will be dedicated to the MBTA under a trust fund mechanism that will not permit future legislatures to divert the funds. The dedicated revenue stream will be disbursed to the MBTA without state appropriation to be used to meet the Commonwealth's current debt service contract assistance obligations relating to MBTA debt and to meet the MBTA's other operating and debt service needs. The Commonwealth will not be liable to pay the MBTA's Net Cost of Service, nor will the Commonwealth be liable for debt service contract assistance on MBTA bonds issued after June 30, 2000. To replace the working capital of the MBTA currently supplied by operating notes and cash advances from the State Treasurer, the legislation authorizes the Commonwealth to issue up to \$800 million in general obligation bonds. The new enabling act expands the number of cities and towns required to pay annual assessments to the MBTA, but reduces the aggregate amount of assessments to approximately \$136 million, to be phased in over five years. After the phase-in, aggregate assessments will be adjusted annually for inflation but will not be permitted to increase by more than 2.5% per year. The legislation also restructures the MBTA's Board of Directors and Advisory Board. The legislation provides that in order to draw down dedicated sales tax receipts or municipal assessments from the state treasury, the MBTA must first certify that it has made provision in its annual budget for sufficient amounts to be available to meet debt service requirements on, among other things, bonds issued prior to July 1, 2000, such as the 2000 Bonds, which are supported by Commonwealth contract assistance. The new enabling act also provides explicitly that to the extent the dedicated sales tax receipts and municipal assessments are insufficient in any year to meet the MBTA's debt service payments with respect to obligations, such as the 2000 Bonds, for which the Commonwealth is liable, through debt service contract assistance or otherwise, the Commonwealth shall remain liable for the payment of such obligations or the provision of Net Cost of Service or contract assistance support as to such obligations to the same extent as before the enactment of the legislation. In addition, the provisions in Section 13 of the current MBTA enabling act which are quoted above under the caption "Obligation of the Commonwealth for Payments to the Authority for Debt Service -- Section 13 of the Act" are repeated in the new enabling act with respect to bonds issued prior to July 1, 2000. The amount of any support provided to the MBTA pursuant to such provisions is to be in the form of a no-interest loan repayable within five years from the MBTA's system revenues and the dedicated sales tax receipts and municipal assessments.

Competitive Contracting Initiatives

The Authority has evaluated competitive contracting for certain administrative and operational functions. A management consulting contract was awarded to Hamilton, Rabinovitz & Alschuler to assist the Authority with its efforts to implement an overall strategic plan for reform and cost savings.

On September 15, 1999, the Authority executed a five-year service agreement with Bay State Transit Services for Commuter Rail mechanical services on rolling stock and maintenance facilities. Due to certain factors, including without limitation potential exposure from federal labor protection statutes and the inability of

the contractor to recruit a qualified work force, the Authority has not implemented such agreement, and there can be no assurance that the Authority will implement the agreement.

The Authority has recently entered into a labor agreement with Local 589. (See "Employee Relations"). While the agreement specifies certain conditions regarding Local 589 members and privatization initiatives, it does not preclude the MBTA from moving forward with privatization initiatives underway, such as bus shelter construction and maintenance, and the installation of an automated fare collection system. The Authority's attempt to contract out the Charlestown/Fellsway and Quincy bus routes was supported by the MBTA Board but met opposition from the State Auditor. The Commonwealth's fiscal year 1998 budget, as enacted by the legislature, contained a provision that would mandate a study to be conducted by the Authority relative to its current bus service operations, with a report to be filed with the legislature by October 1, 1998. The Authority is currently undertaking efforts to complete this report.

Federal Operating Assistance

In federal fiscal years 1999 and 2000, the Authority received and expects to receive \$6.1 million in Section 5307, Urbanized Area Formula Funds.

SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL BOND RESOLUTION

Covenant Respecting Section 13

Under the General Resolution the Authority covenants that it will, at the appropriate time or times, take all such steps, actions and proceedings as are authorized pursuant to said Section 13 of the Act as may be necessary or required in order to assure payment by the Commonwealth and the officers thereof of all moneys required for the payment of the principal or redemption price of and interest on the Bonds as the same become due and payable. The General Resolution requires the Authority to deposit in the Debt Service Fund all such moneys received from the Commonwealth for the payment of debt service on the Bonds.

Pledge For Payment of Principal And Interest

The principal of and interest on the Bonds are payable from and secured by a pledge of and lien on the moneys and securities in the Debt Service Fund established by the General Resolution, in the manner and to the extent provided in the General Resolution and as hereinafter described.

Debt Service Fund

The General Resolution requires the Authority to set aside and pay from time to time, out of the revenues from its transportation system, to State Street Bank and Trust Company, or its successor as Fiscal Agent, in trust for the purposes of the Debt Service Fund all moneys not required for the payment of current expenses, the establishment of special funds and accounts and reserves or the payment of obligations of, claims against or liabilities of the Authority, to the extent necessary to bring the balances in the Interest Account, Serial Bond Account and the Sinking Fund Account therein up to the amounts required by the General Resolution.

In addition to the deposits into the Debt Service Fund from available revenues, as above described, the General Resolution also requires that the Authority pay or cause to be paid to the Fiscal Agent for deposit into the appropriate Account in the Debt Service Fund the following:

- (1) All moneys received as Contract Assistance for the purpose of paying debt service on the Bonds pursuant to the provisions of the Contract for Financial Assistance, as hereinabove described;
- (2) All moneys received from the Commonwealth or the State Treasurer pursuant to Sections 12 and 13 of the Act or otherwise pursuant to law for the purpose of paying debt service on the Bonds; and

- (3) All moneys borrowed pursuant to Section 12 of the Act or otherwise pursuant to law for the purpose of paying debt service on the Bonds.

The Authority may deduct from the foregoing required deposits such amounts as may represent debt service on the Bonds already paid by the Authority.

Defaults and Remedies

The General Resolution declares each of the following as an "event of default":

- (a) Default shall occur in the payment of the principal or redemption price of any of the Bonds when the same shall become due and payable, either at maturity or by proceedings for redemption or otherwise under the provisions of the General Resolution; or
- (b) Default in the payment of any installment of interest on any of the Bonds shall continue for a period of thirty (30) days after the same shall become due and payable; or
- (c) The Authority shall for any reason be rendered generally incapable of fulfilling its obligations under the General Resolution; or
- (d) An order or decree shall be entered (otherwise than in connection with a labor dispute), with the consent or acquiescence of the Authority, appointing a receiver or receivers of the property of the Authority included in its Transportation System or any part thereof or of the Revenues of the Authority, or if such order or decree, having been entered without the consent or acquiescence of the Authority, shall not be vacated or discharged or stayed on appeal within sixty (60) days after the entry thereof; or
- (e) Any proceeding shall be instituted, with the consent or acquiescence of the Authority, for the purpose of effecting a composition between the Authority and its creditors or for the purpose of adjusting the claims of such creditors, pursuant to any Federal or State statute now or hereafter enacted, if the claims of such creditors are under any circumstances payable from the Revenues of the Authority; or
- (f) The Authority shall fail or refuse to comply with the provisions of the Act, as amended from time to time, or shall default in the due and punctual performance or observance of any other of the covenants, conditions, agreements and provisions contained in the Bonds or in the General Resolution on the part of the Authority to be performed or observed, and such failure, refusal or default shall continue for thirty (30) days after written notice, specifying the same and requiring it to be remedied, shall have been given to the Authority by the Fiscal Agent, which may give such notice in its discretion and shall give such notice at the written request of the holders of not less than ten percent (10%) in aggregate principal amount of the outstanding bonds.

The General Resolution provides that, upon the happening and continuance of any event of default, the Fiscal Agent may proceed and, upon the written request of the holders of not less than twenty percent (20%) in principal amount of the outstanding bonds, shall proceed to protect and enforce its rights and the rights of Bondholders under the Act or under the General Resolution by such suits, actions, or special proceedings in equity or at law, or by proceedings in the office of any board or officer having jurisdiction, either for specific performance of any covenant or agreement contained in the General Resolution or in aid or execution of any power therein granted or for the enforcement of any proper legal or equitable remedy, as the Fiscal Agent, being advised by counsel, shall deem most effectual to protect and enforce such rights. Neither the General Resolution nor the Series Resolution provides that on the happening or continuance of an event of default the payment of the principal amount or Redemption Prices of any Bond, or interest thereon, not then due or payable shall become due or payable.

The General Resolution further provides that no holder of any of the Bonds shall have any right to institute any suit, action or proceeding in equity or at law for the execution of any trust under the General Resolution or for any other remedy thereunder unless such holder previously shall have given to the Fiscal Agent written notice of the event of default on account of which such suit, action or proceeding is to be instituted, and unless, also, the holders of not less than ten percent (10%) in aggregate principal amount of the outstanding Bonds shall have made written request of the Fiscal Agent after the right to exercise such powers or right of action, as the case may be, shall have accrued, and shall have afforded the Fiscal Agent a reasonable opportunity either to proceed to exercise the powers hereinabove granted or to institute such action, suit or proceeding in its or their name, and unless, also, there shall have been offered to the Fiscal Agent reasonable security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Fiscal Agent shall have refused or neglected to comply with such request within a reasonable time; and such notification, request and offer of indemnity are declared in every such case, at the option of the Fiscal Agent, to be conditions precedent to the execution of the powers and trusts of the General Resolution or to any other remedy thereunder; provided, however, that, notwithstanding the foregoing provisions and without complying therewith, the holders of not less than twenty percent (20%) in aggregate principal amount of the Bonds then outstanding may institute any such suit, action or proceeding in their own names for the benefit of all holders of Bonds. The General Resolution also provides that it is understood and intended that, except as otherwise provided, no one or more holders of the Bonds shall have any right in any manner whatsoever by his or their action to affect, disturb or prejudice the security afforded by the General Resolution, or to enforce any right thereunder, except in the manner above provided, that all proceedings at law or in equity shall be instituted, had and maintained in the manner above provided and for the benefit of all holders of such outstanding Bonds and coupons, and that any individual rights of action or other rights given to one or more of such holders by law are restricted by the General Resolution to the rights and remedies therein provided.

The General Resolution further provides that, except upon the happening of any event of default specified in clauses (a) and (b) of Section 802 of said resolution (items (a) and (b) above), the Fiscal Agent shall not be obligated to take notice or to be deemed to have notice of any event of default thereunder unless specifically notified in writing of such event by the holders of not less than ten percent (10%) in aggregate principal amount of the outstanding Bonds.

If at any time the moneys available for payment of the principal or Redemption Price of or interest on the Bonds shall be insufficient for such purposes as the same become due and payable, the General Resolution provides that, unless the principal of all the Bonds shall have become due and payable, such moneys (exclusive of moneys held and set aside for the payment of particular bonds and coupons) shall be applied as follows: (a) to the payment of all installments of interest then due and payable in the order in which such installments became due and payable and (b) to the payment of the unpaid principal or Redemption Prices of any Bonds which shall have become due, in the order of their due dates. If the principal of all the Bonds shall become due and payable, all such moneys shall be applied, on a pro rata basis on all outstanding Bonds, to the principal, premium, if any, and interest then due and unpaid upon the Bonds, without preference or priority.

No provision is made in the Series Resolution (except as otherwise provided with respect to redemption and mandatory and optional tender for purchase) for the payment prior to the stated maturity thereof of any amount other than interest at the rate and times stated on any 2000 Bond. In the event that available moneys shall not be sufficient to pay the principal or Redemption Price of or interest on the 2000 Bonds, payments of all installments of interest then due and payable on all bonds may under the terms of the General Resolution be paid prior to the payment to holders of 2000 Bonds of any portion of the amortized original issue discount, if any, on such bonds.

Notwithstanding the foregoing provisions or any other provisions of the General Resolution, any holder of an outstanding Bond or Bonds shall have and retain the right to proceed against the Commonwealth in the manner and for the relief provided in Section 13 of the Act.

Modifications of Resolutions and Outstanding Bonds

The General Resolution provides procedures whereby the Authority may amend the General Resolution or a Series Resolutions by adoption of a Supplemental Resolution. Amendments that may be made without the consent of Bondholders must be for purposes of further securing the Bonds, imposing further limitations on or surrendering rights

of the Authority or curing ambiguities.

Amendments of the respective rights and obligations of the Authority and the Bondholders may be made with the written consent of the holders of not less than two-thirds (2/3) in principal amount of the outstanding Bonds to which the amendment applies; but no such amendment shall permit a change in the terms of redemption or maturity of the principal of any Bond or of any installment of interest thereon or a reduction in the principal amount or the redemption price thereof or in the rate of interest thereon without the consent of the holder of such Bond or shall reduce the percentage or otherwise affect the classes of Bonds, the consent of the holders of which is required to effect such amendment.

Defeasance

The General Resolution provides that if the Authority shall pay or cause to be paid, or there shall otherwise be paid, to the holders of the Bonds and coupons then Outstanding, the principal and interest and Redemption Price, if any, to become due thereon, at the times and in the manner stipulated therein and in the General Resolution, then and in that event the covenants, agreements and other obligations of the Authority to the bondholders shall be discharged and satisfied. The General Resolution further provides that Bonds or coupons for the payment or redemption of which moneys or investments shall then be held and set aside by the Fiscal Agent or the Paying Agents (through deposit by the Authority of funds for such payment or redemption or otherwise), whether at or prior to the maturity or the redemption date of such Bonds, shall be deemed to have been so paid; provided, however, that if any such Bonds are to be redeemed prior to the maturity thereof, the Authority shall have taken all action necessary to redeem such Bonds and notice of such redemption shall have been duly given or provision satisfactory to the Fiscal Agent shall have been made for the giving of such notice and, provided, further, that, if the moneys or investments so held by the Fiscal Agent and the Paying Agents are insufficient to provide for the payment or redemption of such Bonds or coupons, the Fiscal Agent shall certify to the Authority that satisfactory arrangements have been made for the purchase of direct obligations of the United States of America sufficient in principal amount and maturing at such times as will provide, together with the interest thereon and income therefrom, the moneys needed for the payment or redemption of such Bonds and coupons. The General Resolution also provides that any Bonds so paid shall no longer be deemed to be Outstanding thereunder.

Refunding Bonds

The General Resolution permits the issuance of Refunding Bonds for the purpose of refunding any Bonds then Outstanding, subject to requirements that (a) proceeds of the Refunding Bonds together with any other moneys of the Authority available for such purpose, are equal to or exceed the sum of the aggregate principal and Redemption Prices of the Bonds to be refunded plus interest to maturity or redemption and expenses of issue not otherwise provided for; (b) the Fiscal Agent shall have made arrangements to purchase from the proceeds of the Refunding Bonds direct obligations of the United States sufficient in principal amount and maturing at such times as, together with the interest thereon and income therefrom and together with any such proceeds which are not so invested and other available moneys, will provide the moneys needed for the purposes specified in clause (a); and (c) the Annual Debt Service Requirement for the Bonds of the Refunding Issue, for each calendar year during which debt service was scheduled to come due on the refunded Bonds, shall not exceed the Annual Debt Service Requirement of the Bonds being refunded. Pursuant to the Series Resolution, the Annual Debt Service Requirement for the 2000 Bonds shall be based upon an estimate of the Treasurer-Controller of the Authority of the interest reasonably expected to be payable on the 2000 Bonds. See Appendix E. Proceeds of the Bonds of a Refunded Issue shall be set aside, together with other moneys to be used for the purpose, in trust for the sole and exclusive purpose of paying the principal or Redemption Price of an interest on the Bonds to be refunded.

LEGAL INVESTMENTS AND SECURITY FOR DEPOSITS

Section 25 of the Act provides as follows with respect to Authority bonds or notes:

“Bonds and notes issued under this chapter, whether original or refunding and including notes issued under section twelve A, are hereby made securities in which all public officers and public bodies of the commonwealth and its political subdivisions, all insurance companies, trust companies, banking associations, savings banks, cooperative banks, investment companies, executors, trustees and other fiduciaries, and all other persons whatsoever who are now or may hereafter be authorized to invest in bonds or notes or other obligations of a similar nature may properly and legally invest funds, including capital, deposits or other funds in their control or belonging to them. Such bonds and notes are hereby made securities which may properly and legally be deposited with and received by any state or municipal officer or any agency or political subdivision of the commonwealth for any purpose for which the deposit of bonds or other obligations of the commonwealth now or may hereafter be authorized by law.”

NO LITIGATION CERTIFICATE

At the time of original delivery of and payment for the 2000 Bonds, the Authority shall deliver, or cause to be delivered, a certificate of the General Counsel of the Authority to the effect that no litigation is pending or, to the best of his knowledge, threatened affecting the validity of or security for the 2000 Bonds.

TAX EXEMPTION

Bond Counsel is of the opinion that, under existing law, interest on the 2000 Bonds will not be included in the gross income of holders of the 2000 Bonds for federal income tax purposes. This opinion is expressly conditioned upon continued compliance with certain requirements imposed by the Internal Revenue Code of 1986, as amended (the “Code”), which must be satisfied subsequent to the date of issuance of the 2000 Bonds in order to assure that interest on the 2000 Bonds is and continues to be excluded from gross income of holders of the 2000 Bonds. Failure to comply with certain of such requirements could cause interest on the 2000 Bonds to be included in the gross income of the holders of the 2000 Bonds retroactive to the date of issuance of the 2000 Bonds. In particular, and without limitation, those requirements include restrictions on the use, expenditure and investment of proceeds of the 2000 Bonds and the payment of rebate, or penalties in lieu of rebate, to the United States, subject to certain exceptions. The Authority has provided covenants and certificates as to continued compliance with such requirements.

In the opinion of Bond Counsel, under existing law, since the 2000 Bonds are not “private activity bonds” under the Code, interest on the 2000 Bonds will not constitute a preference item under Section 57(a)(5) of the Code for purposes of computation of the alternative minimum tax imposed on certain individuals and corporations under Section 55 of the Code. However, interest on the 2000 Bonds will be included in “adjusted current earnings” of corporate holders of the 2000 Bonds and therefore will be taken into account under Section 56(g) of the Code in the computation of the alternative minimum tax applicable to certain corporations.

Bond Counsel has not opined as to other federal tax consequences arising with respect to the 2000 Bonds. However, prospective purchasers should be aware of certain collateral consequences which may result under federal tax law for certain holders of the 2000 Bonds: (i) Section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the 2000 Bonds or, in the case of a financial institution, that portion of a holder’s interest expense allocated to interest on the 2000 Bonds, (ii) with respect to insurance companies subject to the tax imposed by Section 831 of the Code, Section 832(b)(5)(B)(i) of the Code reduces the deduction for losses incurred by 15 percent of the sum of certain items, including interest on the 2000 Bonds, (iii) interest on the 2000 Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by Section 884 of the Code, (iv) passive investment income, including interest on the 2000 Bonds, may be subject to federal income taxation under Section 1375 of the Code for an S Corporation that has Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such S Corporation is passive investment income, (v) Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account in determining gross income receipts or accruals of interest on the 2000 Bonds

and (vi) receipt of investment earnings, including interest on the 2000 Bonds, may, pursuant to Section 32(i) of the Code, disqualify the recipient from obtaining the earned income credit provided by Section 32(a) of the Code.

In the opinion of Bond Counsel, interest on the 2000 Bonds and any profit on the sale thereof are exempt from Massachusetts personal income taxes, and the 2000 Bonds are exempt from Massachusetts personal property taxes. Bond Counsel has not opined as to other Massachusetts tax consequences arising with respect to the 2000 Bonds. Prospective purchasers should be aware, however, that the 2000 Bonds are included in the measure of Massachusetts estate and inheritance taxes, and the 2000 Bonds and the interest thereon are included in the measure of Massachusetts corporate excise and franchise taxes. Bond Counsel has not opined as to the taxability of the 2000 Bonds or the income therefrom under the laws of any state other than Massachusetts.

RATINGS

The Authority has applied to Fitch IBCA, Inc., Moody's Investors Service, Inc. and Standard & Poor's Ratings Group for ratings on the 2000 Bonds. Ratings are expected to be assigned at or about the time that the initial interest rate is determined and may be ascertained by contacting the Underwriters or the Authority. Ratings may also be published on Bloomberg.

Such ratings reflect only the respective views of such organizations, and an explanation of the significance of such ratings may be obtained from the rating agency furnishing the same. There is no assurance that a rating will continue for any given period of time or that a rating will not be revised or withdrawn entirely by any or all of such rating agencies, if, in its or their judgment, circumstances so warrant. Any downward revision or withdrawal of a rating could have an adverse effect on the market prices of the 2000 Bonds.

LEGAL MATTERS

All legal matters incidental to the authorization and issuance of the 2000 Bonds, are subject to the approval of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts, Bond Counsel to the Authority. The unqualified approving opinion of such counsel, in substantially the form attached hereto as Appendix C, will be delivered at settlement. Certain legal matters will be passed upon for the Authority by Krokidas & Bluestein LLP, Special Disclosure Counsel to the Authority, for the Underwriters by Palmer & Dodge LLP, Boston, Massachusetts, for the Bank by its domestic counsel, Whitman Breed Abbott & Morgan LLP, New York, New York, and by its in-house German counsel and for the Commonwealth by Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts, Commonwealth Disclosure Counsel.

UNDERWRITING

The 2000 Bonds are being purchased for reoffering by a group of underwriters led by PaineWebber Incorporated (the "Underwriters"), at the aggregate purchase price of \$199,693,281 (the principal amount of the 2000 Bonds less the underwriting discount of \$306,719).

The purchase contract provides that the Underwriters will purchase all of the 2000 Bonds, if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the purchase contract. The Underwriters may offer and sell the 2000 Bonds to certain dealers and others (including dealers depositing 2000 Bonds into investment trusts) at prices lower than the public offering price. The public offering price set forth on the cover page hereof may be changed after the initial offering by the Underwriters.

CONTINUING DISCLOSURE

In order to assist the successful bidders in complying with paragraph (b)(5) of Rule 15c2-12, the Authority will undertake to provide annual reports and notice of certain events. A description of this undertaking is set forth in Appendix F attached hereto.

To date, the Authority has complied with all of its continuing disclosure undertakings.

AVAILABILITY OF OTHER FINANCIAL INFORMATION

Questions regarding this Official Statement or requests for additional information concerning the Authority should be directed to Wesley G. Wallace, Jr., Treasurer-Controller, Massachusetts Bay Transportation Authority, 10 Park Plaza, Room 8450, Boston, Massachusetts 02116, telephone (617) 222-3216. Questions regarding legal matters should be directed to John R. Regier or Meghan B. Burke, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., One Financial Center, Boston, Massachusetts 02111, telephone (617) 542-6000.

Current information relating to the Authority, including its most recent audited annual financial statements, may be obtained by writing to Wesley G. Wallace, Jr., Treasurer-Controller, Massachusetts Bay Transportation Authority, 10 Park Plaza, Room 8450, Boston, Massachusetts 02116.

The Department of the State Auditor audits all agencies, departments and authorities of the Commonwealth, including the Authority, at least every two years. Copies of audit reports may be obtained from the State Auditor, State House, Room 229, Boston, Massachusetts 02133.

The Commonwealth prepares its Comprehensive Annual Financial Report ("CAFR") with respect to each fiscal year ending June 30, which becomes available in January of the following fiscal year. Copies of the CAFR may be obtained by requesting the same in writing from the Office of the Comptroller, One Ashburton Place, Room 909, Boston, Massachusetts 02108.

The Commonwealth's Information Statement dated March 3, 2000 (the "Information Statement") is included as Appendix A. Questions regarding the Information Statement or requests for additional financial information concerning the Commonwealth should be directed to Jeffrey S. Stearns, Deputy Treasurer and Receiver-General, One Ashburton Place, Twelfth Floor, Boston, Massachusetts 02108, telephone (617) 367-3900, or Paul E. Ladd, Assistant Secretary for Capital Resources and Chief Development Officer, Executive Office for Administration and Finance, State House, Room 373, Boston, Massachusetts 02133, telephone (617) 727-2040.

By /s/Robert H. Prince, Jr.
General Manager

By /s/Wesley G. Wallace, Jr.
Treasurer-Controller

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**THE
COMMONWEALTH
OF
MASSACHUSETTS**



INFORMATION STATEMENT

Dated March 3, 2000

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THE COMMONWEALTH OF MASSACHUSETTS



CONSTITUTIONAL OFFICERS

Argeo Paul Cellucci.....	Governor
Jane M. Swift	Lieutenant Governor
William F. Galvin	Secretary to the Commonwealth
Thomas F. Reilly.....	Attorney General
Shannon P. O'Brien	Treasurer and Receiver-General
A. Joseph DeNucci.....	Auditor

LEGISLATIVE OFFICERS

Thomas F. Birmingham.....	President of the Senate
Thomas M. Finneran	Speaker of the House

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THE COMMONWEALTH OF MASSACHUSETTS
INFORMATION STATEMENT

March 3, 2000

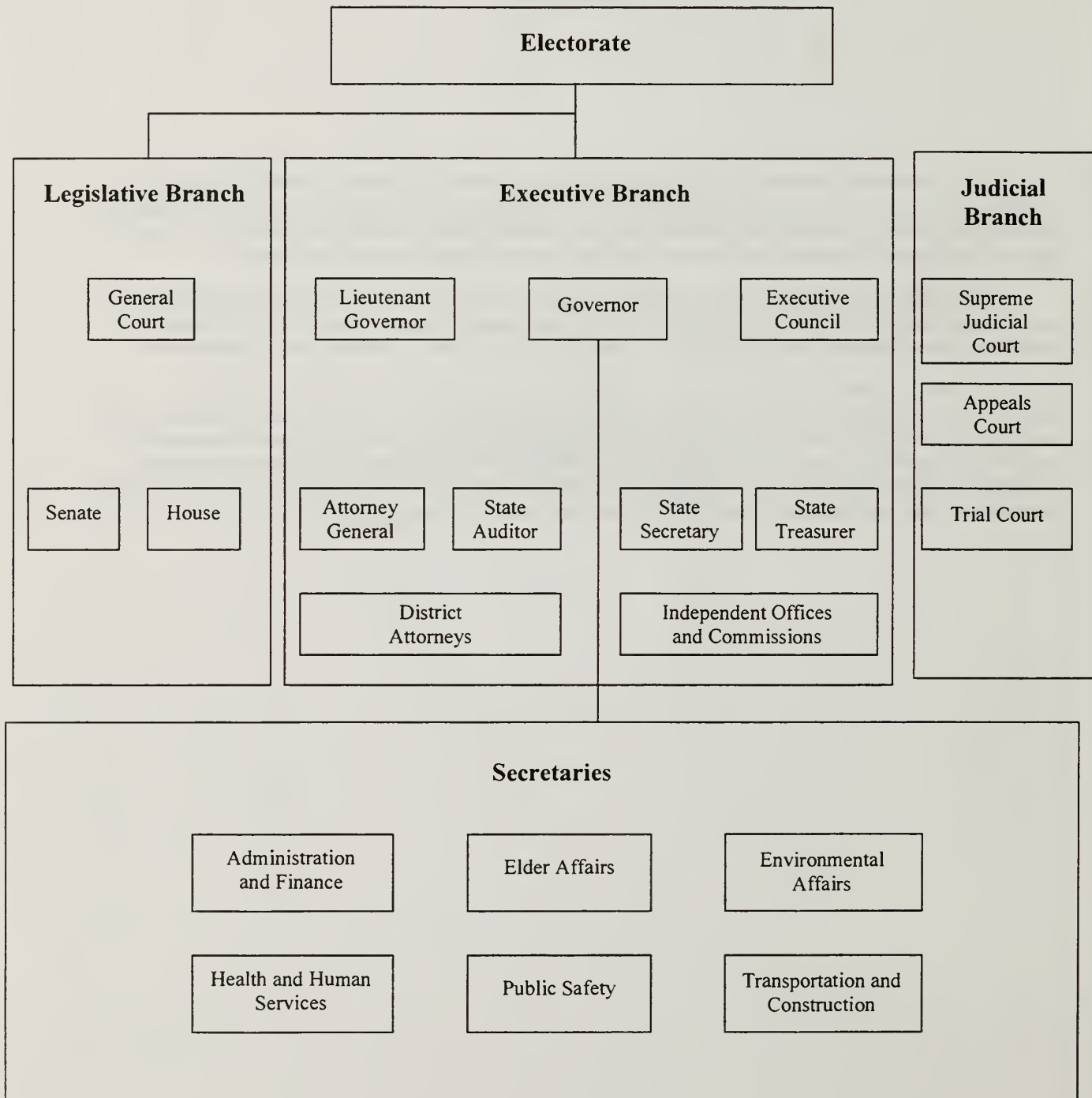
This Information Statement, together with its Exhibits (included by reference as described below), is furnished by The Commonwealth of Massachusetts (the "Commonwealth"). It contains certain fiscal, financial and economic information concerning the Commonwealth and its ability to meet its obligations. The Commonwealth Information Statement contains information only through its date and should be read in its entirety.

The ability of the Commonwealth to meet its obligations will be affected by future social, environmental and economic conditions, among other things, as well as by questions of legislative policy and the financial conditions of the Commonwealth. Many of these conditions are not within the control of the Commonwealth.

Exhibit A to this Information Statement sets forth certain economic, demographic and statistical information concerning the Commonwealth; Exhibits B and C are the fiscal 1999 Statutory Basis Financial Report and the fiscal 1999 Comprehensive Annual Financial Report (GAAP basis), respectively. Specific reference is made to said Exhibits A, B and C, copies of which have been filed with each Nationally Recognized Municipal Securities Information Repository currently recognized by the Securities and Exchange Commission. The financial statements are also available at the Comptroller's home page located at www.state.ma.us/osc.

THE GOVERNMENT

The government of the Commonwealth is divided into three branches: the Executive, the bicameral Legislature and the Judiciary, as indicated by the chart below.



Executive Branch

The Governor is the chief executive officer of the Commonwealth. Other elected members of the executive branch are the Lieutenant Governor (elected with the Governor), the Treasurer and Receiver-General (the "State Treasurer"), the Secretary of the Commonwealth, the Attorney General and the State Auditor. All are elected to four-year terms. The terms of the current office holders began in January, 1999.

The Executive, or Governor's, Council consists of eight members who are elected to two-year terms in even-numbered years. The Executive Council is responsible for the confirmation of certain gubernatorial appointments, particularly judges, and must approve all warrants (other than for debt service) prepared by the Comptroller for payment by the State Treasurer.

Also within the Executive Branch are certain independent offices, each of which performs a defined function, such as the Office of the Comptroller, the Board of Library Commissioners, the Office of the Inspector General, the State Ethics Commission and the Office of Campaign and Political Finance.

Governor's Cabinet. The Governor's Cabinet, which assists the Governor in administration and policy making, is comprised of the secretaries who head the six Executive Offices, which are the Executive Office for Administration and Finance, the Executive Office of Elder Affairs, the Executive Office of Environmental Affairs, the Executive Office of Health and Human Services, the Executive Office of Public Safety and the Executive Office of Transportation and Construction. Cabinet secretaries serve at the pleasure of the Governor. Most agencies are grouped under one of the six Executive Offices for administrative purposes. Other important agencies and departments report directly to the Governor, including the Department of Housing and Community Development, the Department of Consumer Affairs and Business Regulation, the Department of Economic Development and the Department of Labor and Workforce Development. These departments, as well as the Board of Higher Education, had held secretariat status prior to the Legislature's action on the reorganization proposals filed with Governor Weld's fiscal 1997 budget proposal.

Approximately 38.3% of the Commonwealth's fiscal 2000 expenditures in the budgeted operating funds are for programs within the Executive Office of Health and Human Services. The Executive Office for Administration and Finance accounts for approximately 6.3% of such expenditures, the Executive Office of Public Safety for approximately 4.5% and the Executive Office of Transportation and Construction for approximately 3.5%. The remaining secretariats account for approximately 1.9% of such expenditures. Spending for education, which is generally overseen by the state Board of Education or the State Board of Higher Education, accounts for 21.5% of the estimated fiscal 2000 expenditures, and spending for the Department of Housing and Community Development, the Department of Economic Development, the Department of Consumer Affairs and Business Regulation, and the Department of Labor and Workforce Development totals 1.3% in fiscal 2000.

Approximately 5.1% of the Commonwealth's fiscal 2000 expenditures in the budgeted operating funds are for the costs and expenses of the constitutional officers (other than the State Treasurer), the Legislature, the Judiciary, the Office of the Comptroller, the Board of Library Commissioners, the Office of the Inspector General, the State Ethics Commission and the Office of Campaign and Political Finance. The State Treasurer's budget contains approximately 16.6% of fiscal 2000 expenditures, including 5.4% for a portion of Commonwealth aid to cities, towns and regional school districts ("Local Aid"), 5.6% for debt service, 4.6% for pension costs, and 0.9% for other programs within the State Treasurer's office, including Lottery administration. See "COMMONWEALTH PROGRAMS AND SERVICES—Local Aid"

The remaining 1% of fiscal 2000 expenditures is reserved for contingencies.

The Governor's chief fiscal officer is the Secretary of Administration and Finance. The activities of the Executive Office for Administration and Finance fall within five broad categories: (i) administrative and fiscal supervision, including supervision of the implementation of the Commonwealth's budget and monitoring of all agency expenditures during the fiscal year; (ii) enforcement of the Commonwealth's tax laws and collection of tax revenues through the Department of Revenue for remittance to the State Treasurer, (iii) human resource management, including administration of the state personnel system, civil service system and employee benefit programs, and negotiation of collective bargaining agreements with certain of the Commonwealth's public employee unions; (iv) capital facilities management, including coordinating and overseeing the construction,

management and leasing of all state facilities; and (v) administration of general services, including information technology services.

State Comptroller. All accounting policies and practices publication of official financial reports and oversight of fiscal management functions are the responsibility of the Comptroller. The Comptroller also administers the annual state single audit and operates the state accounting system. The Comptroller is appointed by the Governor for a term coterminous with the Governor's and may be removed by the Governor only for cause. The annual financial reports of the Commonwealth, single audit reports and any rules and regulations promulgated by the Comptroller must be reviewed by an advisory board. This board is chaired by the Secretary of Administration and Finance and includes the State Treasurer, the Attorney General, the State Auditor, the Chief Administrative Justice of the Trial Court and two persons with relevant experience appointed by the Governor for three-year staggered terms. The Commonwealth is currently involved in a procurement for outside auditors for the period from fiscal 2000 through fiscal 2007, including option years. The fiscal 1999 Comprehensive Annual Financial Report, included herein by reference as Exhibit C, contained an unqualified opinion from the independent public accounting firm of Deloitte & Touche, LLP. See "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS."

State Treasurer. The State Treasurer has four primary statutory responsibilities: (i) the collection of all state revenues (other than small amounts of funds held by certain agencies); (ii) the management of both short-term and long-term investments of Commonwealth funds (other than the state employee and teacher pension funds), including all cash receipts; (iii) the disbursement of Commonwealth moneys and oversight of reconciliation of the state's accounts; and (iv) the issuance of all debt obligations of the Commonwealth, including notes, commercial paper and long-term bonds.

In addition to these responsibilities, the State Treasurer serves as Chairman of the Massachusetts Lottery Commission, the State Board of Retirement, the Pension Reserves Investment Management Board and the Massachusetts Water Pollution Abatement Trust. The State Treasurer also serves as a member of numerous other state boards and commissions, including the Emergency Finance Board.

State Auditor. The State Auditor is charged with improving the efficiency of state government by auditing the administration and expenditure of public funds and reporting the findings to the public. The State Auditor reviews the activities and operations of approximately 750 state entities and contract compliance of private vendors doing business with the Commonwealth. See "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS."

Attorney General. The Attorney General represents the Commonwealth in all legal proceedings in both the state and federal courts, including defending the Commonwealth in actions in which a state law or executive action is challenged. The Attorney General also brings actions to enforce environmental and consumer protection statutes, among others, and represents the Commonwealth in public utility and automobile and health insurance rate setting procedures. The Attorney General works in conjunction with the general counsel of the various state agencies and executive departments to coordinate and monitor all pending litigation.

State Secretary. The Secretary of the Commonwealth is responsible for collection and storage of public records and archives, securities regulation, state elections, administration of state lobbying laws and custody of the seal of the Commonwealth.

Legislative Branch

The General Court (the "General Court" or the "Legislature") is the bicameral legislative body of the Commonwealth, consisting of a Senate of 40 members and a House of Representatives of 160 members. Members of both the Senate and the House are elected to two-year terms in even-numbered years. The General Court meets every year. The joint rules of the House and Senate require all formal business to be concluded by the end of July in even-numbered years and by the third Wednesday in November in odd-numbered years.

The House of Representatives must originate any bill that imposes a tax. Once a tax bill is originated by the House and forwarded to the Senate for consideration, the Senate may amend it. All bills are presented to the Governor for approval or veto; the General Court may override the Governor's veto of any bill by a two-thirds vote of each house. The Governor also has the power to return a bill to the branch of the Legislature in which it was

originated with a recommendation that certain amendments be made therein; such bill is then before the Legislature and is subject to amendment or re-enactment, at which point the Governor has no further right to return the bill a second time with a recommendation to amend.

Judicial Branch

The judicial branch of state government is composed of the Supreme Judicial Court, the Appeals Court and the Trial Court. The Supreme Judicial Court has original jurisdiction over certain cases and hears appeals from both the Appeals Court, which is an intermediate appellate court, and, in some cases, directly from the Trial Court. The Supreme Judicial Court is authorized to render advisory opinions on certain questions of law to the Governor, the General Court and the Governor's Council. Judges of the Supreme Judicial Court, the Appeals Court and the Trial Court are appointed by the Governor, with the advice and consent of the Governor's Council, to serve until the mandatory retirement age of 70 years.

Independent Authorities and Agencies

The Legislature has established 56 independent authorities and agencies within the Commonwealth, the budgets of which are not included in the Commonwealth's annual budget. The Governmental Accounting Standards Board (GASB) statement number 14 articulates standards for determining significant financial or operational relationships between the primary government and its independent entities. The Commonwealth has significant operational or financial relationships, or both, as defined by this statement, with 34 of its 56 authorities. For example, the Commonwealth appropriates budgetary funds for subsidies, operating assistance and debt service payments (and/or is liable for all or a portion of the outstanding debt) of certain of these authorities and agencies, such as the Massachusetts Bay Transportation Authority, the Boston Metropolitan District, the Woods Hole, Martha's Vineyard and Nantucket Steamship Authority, certain regional transit authorities, the Massachusetts Convention Center Authority, the Massachusetts Development Finance Agency (as successor to the Massachusetts Government Land Bank), the Massachusetts Turnpike Authority and the Massachusetts Water Pollution Abatement Trust. See "COMMONWEALTH BOND AND NOTE LIABILITIES." Because of recent legislation restructuring the finances of the Massachusetts Bay Transportation Authority, the Commonwealth will, beginning in fiscal 2001, no longer make direct debt service payments on the MBTA's bonds, but the Commonwealth will remain obligated to pay such debt service if the MBTA cannot. See "COMMONWEALTH PROGRAMS AND SERVICES – Massachusetts Bay Transportation Authority." The Commonwealth guarantees certain debt issued by the University of Massachusetts Building Authority and the Massachusetts State College Building Authority and may be called upon to replenish the capital reserve funds of the Massachusetts Housing Finance Agency and the Massachusetts Home Mortgage Finance Agency. See "COMMONWEALTH BOND AND NOTE LIABILITIES." Other independent authorities and agencies which issue their own debt for quasi-governmental purposes include the Massachusetts Educational Financing Authority, the Massachusetts Health and Educational Facilities Authority, the Massachusetts Development Finance Agency (as successor to the Massachusetts Industrial Finance Agency), the Massachusetts Port Authority and the Massachusetts Water Resources Authority. A discussion of these entities and the relationship to the Commonwealth is included in footnote 1 to the fiscal 1999 general purpose financial statements in the Comprehensive Annual Financial Report included herein by reference as Exhibit C.

Local Government

As of July 1, 1999, below the level of state government there were eight county governments responsible for various functions, principally the operation of correctional facilities and registries of deeds. There were 14 counties in Massachusetts, but county government has been abolished in six of them and is scheduled to terminate in Berkshire County, as of July 1, 2000. In his fiscal 2001 budget, Governor Cellucci recommended the elimination of four additional county governments during the next two years. Under legislation enacted in 1996, Franklin County government terminated on July 1, 1997, at which date a regional council of governments was established. Legislation approved by Governor Weld on July 11, 1997 abolished Middlesex County government on that date and provided for the abolition of county government in Hampden and Worcester Counties on July 1, 1998. On August 13, 1998, Acting Governor Cellucci approved legislation abolishing county government in Hampshire, Essex and Berkshire Counties on January 1, 1999, July 1, 1999 and July 1, 2000, respectively, generally as provided in the 1997 legislation. A regional council of governments was established in Hampshire County upon its abolition, which council is similar to that established in Franklin County. In the state budget for fiscal 2000, a new Chapter 34B was

added to the general laws to codify the provisions relative to abolition of county government in earlier acts. The law provides that as of the date of abolition of a county, virtually all functions, duties and responsibilities of the affected county are transferred to the Commonwealth. As of the date of abolition, all valid liabilities and debts of such a county become obligations of the Commonwealth; an appropriation has been provided for liquidation of these liabilities when required. All assets and revenues of such a county become assets and revenues of the Commonwealth. The Secretary of Administration and Finance is directed to establish an amortization schedule to recover the net liabilities to the Commonwealth from the cities and towns within each such county over a period not to exceed 25 years. Chapter 34B provides that such assets include the value of the pension benefits payable to employees transferred from a county to the Commonwealth attributable to the period of employment with the county prior to its abolition. The Secretary is directed to file such schedules by April 1, 2000 or 60 days following the abolition of such county.

All territory in the Commonwealth is in one of the eight counties and in one of the 351 incorporated cities and towns which exercise the functions of local government. Cities and towns or regional school districts established by them provide elementary and secondary education. Cities are governed by several variations of the mayor-and-council or manager-and-council form. Most towns place executive power in a board of three or five selectmen elected to one- or three-year terms and retain legislative powers in the voters themselves, who assemble in periodic open or representative town meetings. Various local and regional districts exist for schools, parks, water and wastewater administration and certain other governmental functions.

Municipal revenues consist of taxes on real and personal property, distributions from the Commonwealth under a variety of programs and formulas, local receipts (including motor vehicle excise taxes, local option taxes, fines, licenses and permits, charges for utility and other services and investment income) and appropriations from other available funds (including general and dedicated reserve funds). Since 1998, all towns on Cape Cod and certain others have by referendum accepted legislation providing for a surcharge beginning in fiscal 2000 on the real property tax for the purpose of acquiring open space. Following the enactment in 1980 of the tax limitation initiative petition commonly known as Proposition 2½, most local governments have been forced to rely on other revenues, principally Local Aid, to support local programs and services. See "COMMONWEALTH PROGRAMS AND SERVICES—Local Aid."

Initiative Petitions

Under the Massachusetts constitution, legislation may be enacted in the Commonwealth pursuant to a voter initiative process. Initiative petitions which have been certified by the Attorney General as to proper form and as to which the requisite number of voter signatures have been collected are submitted to the Legislature for consideration. If the Legislature fails to enact the measure into law as submitted, the petitioner may place the initiative on the ballot for the next statewide general election by collecting additional voter signatures. If approved by a majority of the voters at the general election, the petition becomes law 30 days after the date of the election. Initiative petitions approved by the voters do not constitute constitutional amendments and may be subsequently amended or repealed by the Legislature. In recent years, ballots at statewide general elections typically have presented a variety of initiative petitions, frequently including petitions relating to tax and fiscal policy. A number of these have been approved and become law. See particularly "COMMONWEALTH REVENUES – STATE TAXES; *Income Tax*," "– Federal and Other Non-Tax Revenues" and "– Limitations on Tax Revenues" and "COMMONWEALTH PROGRAMS AND SERVICES – Local Aid."

COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS

Operating Fund Structure

Budgeted Operating Funds. The Commonwealth's operating fund structure satisfies the requirements of state finance law and is in accordance with generally accepted accounting principles ("GAAP"), as defined by the Governmental Accounting Standards Board. The General Fund and those special revenue funds which are appropriated in the annual state budget receive most of the non-bond and non-federal grant revenues of the Commonwealth. These funds are referred to in this Information Statement as the "budgeted operating funds" of the Commonwealth. They do not include the capital projects funds of the Commonwealth, into which the proceeds of Commonwealth bonds are deposited. See "Overview of Capital Spending Process and Controls; *Capital Projects*

Fund Structure.” The three principal budgeted operating funds are the General Fund, the Highway Fund and the Local Aid Fund. Expenditures from these three funds generally account for approximately 93% of total expenditures of the budgeted operating funds.

Year-end Surpluses. State finance law provides for a Stabilization Fund, a Capital Projects Fund and a Tax Reduction Fund relating to the use of any aggregate fiscal year-end surplus in the Commonwealth’s three principal budgeted operating funds (the General Fund, the Local Aid Fund and the Highway Fund). A limitation equal to 0.5% of total tax revenues is imposed on the amount of any such aggregate surplus which may be carried forward as a beginning balance for the next fiscal year. For any fiscal year for which the Comptroller determines on or before October 31 of the succeeding fiscal year that there is a negative balance in the state’s capital projects funds, the Comptroller may transfer up to 40% of the remaining year-end surplus to a separate Capital Projects Fund to be used in lieu of bonds to finance capital expenditures. The remainder of any such aggregate year-end surplus is reserved in the Stabilization Fund, from which funds can be appropriated (i) to make up any difference between actual state revenues and allowable state revenues in any fiscal year in which actual revenues fall below the allowable amount, (ii) to replace state and local losses of federal funds or (iii) for any event, as determined by the Legislature, which threatens the health safety or welfare of the people or the fiscal stability of the Commonwealth or any of its political subdivisions. Up to 7.5% of budgeted revenues and other financial resources pertaining to the budgeted funds, as confirmed by the Comptroller in the audited statutory basis financial report for the immediately preceding fiscal year, may be accumulated in the Stabilization Fund. Amounts in excess of that limit are to be transferred to a Tax Reduction Fund, from which they are to be applied to the reduction of personal income taxes. For fiscal 1997, the statutory ceiling on the Stabilization Fund was 5% of budgeted revenues and other financial resources pertaining to the budgeted funds, and prior to fiscal 1997, the statutory ceiling on the Stabilization Fund was 5% of total tax revenues less the amount of annual debt service costs. For each of the 1995 and 1996 fiscal years, the Legislature overrode the general provisions governing deposits to or the use of excess balances in the Stabilization Fund by the enactment of one-time modifications. See “FINANCIAL RESULTS – Statutory Basis.”

Overview of Budgetary Process

Generally, funds for the Commonwealth’s programs and services must be appropriated by the Legislature. The process of preparing a budget at the administrative level begins early in the fiscal year preceding the fiscal year for which the budget will take effect. The legislative budgetary process begins in late January (or, in the case of a newly elected Governor, not later than March) with the Governor’s submission to the Legislature of a budget recommendation for the fiscal year commencing in the ensuing July. The Massachusetts constitution requires that the Governor recommend to the Legislature a budget which contains a statement of all proposed expenditures of the Commonwealth for the fiscal year, including those already authorized by law, and of all taxes, revenues, loans and other means by which such expenditures are to be defrayed. By statute, the Legislature and the Governor must approve a balanced budget for each fiscal year, and no supplementary appropriation bill may be approved by the Governor if it will result in an unbalanced budget. However, this is a statutory requirement that may be superseded by an appropriation act.

The House Ways and Means Committee considers the Governor’s budget recommendations and, with revisions, proposes a budget to the full House of Representatives. Once approved by the House, the budget is considered by the Senate Ways and Means Committee, which in turn proposes a budget to be considered by the full Senate. After Senate action, a legislative conference committee generally develops a compromise budget for consideration by both houses of the Legislature, which upon adoption is sent to the Governor. Under the Massachusetts constitution, the Governor may veto the budget in whole or disapprove or reduce specific line items. The Legislature may override the Governor’s veto or specific line-item vetoes by a two-thirds vote of both the House and Senate. The annual budget legislation, as finally enacted, is known as the General Appropriation Act.

In years in which the General Appropriation Act is not approved by the Legislature and the Governor prior to the beginning of the applicable fiscal year, the Legislature and the Governor generally approve a temporary budget under which funds for the Commonwealth’s programs and services are appropriated based upon the level of appropriations from the prior fiscal year budget.

During the course of the fiscal year, the Comptroller monitors budgetary accounts and notifies the Secretary of Administration and Finance and the House and Senate Committees on Ways and Means whenever the appropriation for a particular account has been depleted. Whenever the Governor believes that existing

appropriations are insufficient to provide for projected expenditures under authorized programs, the Governor may seek supplemental appropriations for particular programs or spending items.

Various procedures required by state finance law are used by the Commonwealth to monitor revenues and expenditures during the fiscal year. For example, quarterly revenue estimates are required to be made by the Secretary of Administration and Finance, and the Comptroller publishes a quarterly report of planned and actual revenues. See "COMMONWEALTH REVENUES – Tax Revenue Forecasting." In addition, each department head is required to notify the Secretary of Administration and Finance and the House and Senate Committees on Ways and Means of any anticipated decrease in estimated revenues for his or her department from the federal government or other sources or whenever it appears that any appropriation will be insufficient to meet all expenditures required in the fiscal year by any law, rule, regulation or order not subject to the administrative control. The Secretary of Administration and Finance must notify the Governor and the House and Senate Committees on Ways and Means whenever the Secretary determines that revenues will be insufficient to meet authorized expenditures. The Secretary of Administration and Finance is then required to compute projected deficiencies and, under Section 9C of Chapter 29 of the General Laws, the Governor is required to reduce allotments, to the extent lawfully permitted to do so, or submit proposals to the Legislature to raise additional revenues or to make appropriations from the Stabilization Fund to cover such deficiencies. The Supreme Judicial Court has ruled that the Governor's authority to reduce allotments of appropriated funds extends only to appropriations of funds to state agencies under the Governor's control and not, for example, to local aid.

Cash and Budgetary Controls

The Commonwealth has in place controls designed to ensure that sufficient cash is available to meet the Commonwealth's obligations, that state expenditures are consistent with periodic allotments of annual appropriations and that moneys are expended consistently with statutory and public purposes. Two independently elected Executive Branch officials, the State Treasurer and the State Auditor, conduct the cash management and independent audit functions respectively. The Comptroller conducts the expenditure control function. The Secretary of Administration and Finance is the Governor's chief fiscal officer and provides overall coordination of fiscal activities.

In addition, the Commonwealth's Finance Advisory Board is obligated by law to survey periodically the debt instruments of the Commonwealth and report on the Commonwealth's financial structure, including debt and financial marketing plans. The Board consists of the State Treasurer and four members appointed by the Governor.

Cash Management Practices of State Treasurer

The State Treasurer is responsible for ensuring that all Commonwealth financial obligations are met on a timely basis. The Massachusetts constitution requires that all payments by the Commonwealth (other than debt service) be made pursuant to a warrant approved by the Governor's Council. The Comptroller prepares certificates which, with the advice and consent of the Governor's Council and approval of the Governor, become the warrant to the State Treasurer. Once the warrant is approved, the State Treasurer's office disburses the money.

The Cash Management Division of the State Treasurer's office accounts on a daily basis for cash received into over 600 separate accounts of the Department of Revenue and other Commonwealth agencies and departments. The Division relies primarily upon electronic receipt and disbursement systems.

The State Treasurer is required to submit quarterly cash flow projections for the then current fiscal year to the House and Senate Committees on Ways and Means on or before each August 25, November 25, February 25 and May 25. The projections must include estimated sources and uses of cash, together with the assumptions from which such estimates were derived and identification of any cash flow gaps. Regular meetings comparing estimated to actual revenues and expenditures are held among the Office of the State Treasurer, the Office of the Comptroller, the Department of Revenue and the Executive Office for Administration and Finance.

The State Treasurer's office, in conjunction with the Executive Office for Administration and Finance, is also required to develop quarterly and annual cash management plans to address any gap identified by the cash flow projections and variance reports.

Fiscal Control, Accounting and Reporting Practices of Comptroller

The Comptroller is responsible for oversight of fiscal management functions, establishment of all accounting policies and practices and publication of official financial reports. The Comptroller maintains the Massachusetts Management Accounting and Reporting System ("MMARS"), the centralized state accounting system that is used by all state agencies and departments except independent state authorities. MMARS provides a ledger-based system of revenue and expenditure accounts enabling the Comptroller to control obligations and expenditures effectively and to ensure that appropriations are not exceeded during the course of the fiscal year. The Commonwealth's statewide accounting system also includes a billing and accounts receivable subsystem to control the billing, collection and management of its non-tax revenues.

Expenditure Controls. The Comptroller requires that the amount of all obligations under purchase orders, contracts and other commitments for the expenditures of moneys be recorded as encumbrances. Once encumbered, these amounts are not available to support additional spending commitments. As a result of these encumbrances, spending agencies can use MMARS to determine at any given time the amount of their appropriations available for future commitments.

The Comptroller is responsible for compiling expenditure requests into the certificates for approval by the Governor's Council. In preparing the certificates which become the warrant, the Comptroller's office has systems in place to ensure that the necessary moneys for payment have been both appropriated by the Legislature and allotted by the Governor in each account and subaccount. By law, certain obligations may be placed upon the warrant even if the supporting appropriation or allotment is insufficient. These obligations include debt service, which is specifically exempted by the state constitution from the warrant requirement, and Medicaid payments, which are mandated by federal law.

Although state finance law generally does not create priorities among types of payments to be made by the Commonwealth in the event of a cash shortfall, the Comptroller has developed procedures, in consultation with the State Treasurer and the Executive Office for Administration and Finance, for prioritizing payments based upon state finance law and sound fiscal management practices. Under those procedures, debt service on the Commonwealth's bonds and notes is given the highest priority among the Commonwealth's various payment obligations.

Internal Controls. The Comptroller maintains internal control policies and procedures in accordance with state finance law that state agencies are required to follow. Violations of state finance law or regulation, or other internal control weaknesses, must be reported to the State Auditor, who is authorized, among other things, to investigate and recommend corrective action.

Statutory Basis of Accounting. The Commonwealth adopts its budget and maintains its financial information on the basis of state finance law (the "statutory basis of accounting" or "statutory basis"). The emphasis is on accountability and budgetary control over appropriations.

Under the statutory basis, tax and departmental revenues are accounted for on a modified cash basis by reconciling revenue to actual cash receipts confirmed by the State Treasurer. Certain limited revenue accruals are also recognized, including federal reimbursements receivable with respect to expenditures already made. Expenditures are measured on a modified cash basis with actual cash disbursements as confirmed by the State Treasurer, except that encumbrances for goods or services received at or before the end of a fiscal year are recognized as accounts payable and included in expenditures.

For most Commonwealth programs and services, the measurement of expenditures under the statutory basis of accounting is equivalent to such measurement on a GAAP basis. However, for certain federally mandated entitlement programs, such as Medicaid, expenditures are recognized under the statutory basis of accounting to the extent of disbursements on appropriations made through June 30 of each fiscal year. The approximate net effect of this statutory practice is to charge in each fiscal year the Medicaid bills of the last two or three months of the preceding fiscal year and the first nine or ten months of the current fiscal year.

GAAP Basis of Accounting. Since fiscal 1986, the Comptroller has prepared Commonwealth financial statements on a GAAP basis. The emphasis is on demonstrating inter-period equity through the use of modified accrual accounting for the recognition of revenues and expenditures/expenses. In addition to the primary

government, certain independent authorities and agencies of the Commonwealth are included as component units within the Commonwealth's reporting entity, primarily as non-budgeted enterprise funds.

Under GAAP, revenues are reported in the period in which they become both measurable and available. Revenues are "available" when they are expected to be collected within the current period or soon enough thereafter to be used to pay liabilities of the current period. Significant revenues susceptible to accrual include income, sales and use, corporation and other taxes, federal grants and reimbursements, local government assessments for operations of the Massachusetts Bay Transportation Authority (MBTA) and reimbursements for the use of materials and services. Tax accruals, which represent the estimated amounts due to the Commonwealth on previous filings, over and under withholdings, estimated payments on income earned and tax refunds and abatements payable, are all recorded as adjustments to statutory basis tax revenues. Expenditures/expenses are recorded in the period in which the related fund liability is incurred. Principal of and interest on long-term debt obligations are recorded as fund liabilities when due. Major expenditure accruals are recorded for the cost of Medicaid claims that have been incurred but not paid, net cost of service payments due to the MBTA, claims and judgments and compensated absences such as vacation pay earned by state employees. See "FINANCIAL RESULTS SELECTED FINANCIAL DATA – GAAP Basis" and Exhibit C (Fiscal 1999 Comprehensive Annual Financial Report).

Financial Reports. The Commonwealth's fiscal year ends on June 30. For fiscal years 1986 through 1989, the Commonwealth's audited annual report included audited financial statements on both the statutory basis of accounting and the GAAP basis. Since fiscal 1990, these financial statements have been issued as two separate reports, one utilizing the statutory basis of accounting (the Statutory Basis Financial Report) and one utilizing the GAAP basis (the Comprehensive Annual Financial Report, or CAFR). The Statutory Basis Financial Report is published by the Comptroller by October 31, and the CAFR is published by the Comptroller by the second Wednesday in January. The Statutory Basis Financial Report for fiscal 1999 and the CAFR for fiscal 1999 are included herein by reference as Exhibits B and C, respectively. For fiscal 1991 through 1999 the independent auditor's opinions were unqualified. Copies of these financial reports are available at the address provided under "CONTINUING DISCLOSURE." These financial statements are also available on the Comptroller's home page located at www.state.ma.us/osc. Throughout the year, the Comptroller prepares interim financial statements on the statutory basis of accounting, which are not audited, but are considered authoritative.

The Comptroller retains an independent certified public accounting firm to render opinions on the Commonwealth's financial statements and on certain other reports required by the single audit. As part of the single audit, the independent auditors render a report on all programs involving federal funding for compliance with federal and state laws and regulations and assess the adequacy of internal control systems. A separate report is issued on all programs not involving federal funding.

The Commonwealth CAFRs for fiscal 1995 through fiscal 1998, from which certain information contained in this Information Statement has been derived, were each awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association of the United States and Canada (GFOA). The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting. Fiscal 1998 is the ninth consecutive year that the Commonwealth has received this award.

In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report, the contents of which conform to program standards. Any such CAFR must satisfy both GAAP and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only.

Overview of Capital Spending Process and Controls

Capital Projects Fund Structure. Capital projects funds are used to account for financial activity related to the acquisition of major capital assets. Line item capital appropriations are authorized from capital projects funds. Such capital spending is financed principally from proceeds of Commonwealth bonds and bond anticipation notes, federal reimbursements, contributions from other entities (such as the Massachusetts Turnpike Authority and the Massachusetts Port Authority) and transfers from other governmental funds. The issuance of bonds and bond anticipation notes requires that both houses of the Legislature approve, by a two-thirds vote, bond authorizations to incur debt for specific purposes. See "COMMONWEALTH BOND AND NOTE LIABILITIES." Pursuant to state finance

law, the Governor, through the Secretary of Administration and Finance, has discretion over the allotment and, therefore, the actual expenditure of funds authorized by capital appropriations.

Five-Year Capital Spending Plan. The Fiscal Affairs Division in the Executive Office for Administration and Finance maintains a rolling five-year capital spending plan. The plan, which is an administrative guideline and subject to amendment at any time, sets forth capital spending allocations for a period of five fiscal years and establishes capital spending limits. The policy objective of the five-year plan is to limit the Commonwealth's debt burden by controlling the relationship between current capital spending and the issuance of Commonwealth bonds. Capital appropriations enacted by the Legislature are typically supported by bond authorizations. As noted above, the Governor, through the Secretary of Administration and Finance, may control the rate at which capital expenditures occur by utilizing his discretion over the allotment of capital appropriations, and therefore control the amount of bonds issued to finance such expenditures. See "COMMONWEALTH CAPITAL SPENDING" AND "COMMONWEALTH BOND AND NOTE LIABILITIES."

Capital Spending and Controls. In conjunction with the development of the five-year capital spending plan, a number of accounting procedures and fiscal controls have been instituted to limit agency capital spending to the levels established by the plan. Since July 1, 1991, all agency capital spending has been tracked against the five-year plan on both cash and an encumbrance accounting basis on MMARS, and federal reimbursements have been budgeted and monitored against anticipated receipts.

Audit Practices of State Auditor

The State Auditor is mandated under state law to conduct an audit at least once every two years of all activities of the Commonwealth. The audit encompasses 750 entities, including the court system and the independent authorities, and includes an overall evaluation of management operations. The State Auditor also has the authority to audit federally aided programs and vendors under contract with the Commonwealth, as well as to conduct special audit projects. The State Auditor conducts both financial compliance and performance audits in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States. In addition, and in conjunction with the independent public accounting firm of Deloitte & Touche, LLP, the State Auditor performs a significant portion of the audit work relating to the state single audit.

Within the State Auditor's office is the Division of Local Mandates, which evaluates all proposed and actual legislation to determine the financial impact on the Commonwealth's cities and towns. In accordance with state law, the Commonwealth is required to reimburse cities and towns for any costs incurred through mandated programs established after the passage of Proposition 2½, the statewide tax limitation enacted by the voters in 1980, unless expressly exempted from those provisions, and the State Auditor's financial analysis is used to establish the amount of reimbursement due. See "COMMONWEALTH PROGRAMS AND SERVICES – Local Aid; Proposition 2½."

FINANCIAL RESULTS

As the annual operating budget of the Commonwealth is adopted in accordance with the statutory basis of accounting, public and governmental discourse on the financial affairs of the Commonwealth has traditionally followed the statutory basis. Consequently, the financial information set forth in this document follows the statutory basis, except where otherwise noted. Since fiscal 1990, the Commonwealth has prepared separate audited financial reports on the statutory basis and on a GAAP basis. See "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS—Fiscal Control, Accounting and Reporting Practices of the Comptroller; *Financial Reports*." The Statutory Basis Financial Report for fiscal 1999 is included herein by reference as Exhibit B. The Comprehensive Annual Financial Report for fiscal 1999 is included herein by reference as Exhibit C.

Selected Financial Data—Statutory Basis

The revenues and expenditures of the budgeted operating funds presented in the following table are derived from the Commonwealth's audited statutory basis financial statements for fiscal 1995 through 1999, and estimates for fiscal 2000 prepared by the Executive Office for Administration and Finance. The financial information presented includes all budgeted operating funds of the Commonwealth. When the status of a fund has changed during this period, prior years have been restated to conform to the fiscal 2000 budget.

In fiscal 1999, the Commonwealth reported 63 budgeted operating funds. During a fiscal year there are numerous transactions among these budgeted funds, which from the fund accounting perspective create offsetting inflows and outflows.

In conducting the budget process, the Executive Office for Administration and Finance excludes those interfund transactions that by their nature have no impact on the combined fund balance of the budgeted funds. The following table isolates this interfund activity from the budgeted sources and uses to align more clearly forecasts prepared during the budget process to the detailed fund accounting of the Commonwealth's annual financial statements. The table also isolates the assessments on municipalities collected by the Commonwealth and paid to the Massachusetts Bay Transportation Authority and regional transit authorities. This activity is recorded in the Commonwealth's financial statements as part of the General Fund, but it is not appropriated or included in the budget process.

Budgeted Operating Funds Operations -- Statutory Basis
(in millions)(1)

	Fiscal 1995	Fiscal 1996	Fiscal 1997	Fiscal 1998	Fiscal 1999	Estimated Fiscal 2000
<u>Beginning Fund Balances</u>						
Reserved or Designated	\$ 79.3	\$ 128.1	\$ 263.4	\$ 225.1	\$ 286.3	\$ 330.2
Tax Reduction Fund	--	--	231.7	91.8	367.7	6.8
Stabilization Fund	382.9	425.4	543.3	799.3	1,159.6	1,388.5
Undesignated	127.1	172.5	134.0	277.8	378.5	386.9
Fund Balance Restatement	--	--	0.6(2)	--	--	--
Total	589.3	726.0	1,173.0	1,394.0	2,192.1	2,112.4
<u>Revenues and Other Sources</u>						
Taxes	11,163.4	12,049.2	12,864.5	14,026.3	14,291.5	15,288.0
Federal Reimbursements	2,969.7	3,039.1	3,019.6	3,361.2	3,442.9	3,606.0
Departmental and Other Revenues	1,273.1	1,208.1	1,267.9	1,286.4	1,297.8	1,298.3
Interfund Transfers from Non-budgeted Funds and Other Sources	981.0	1,031.1	1,018.0	1,125.9	1,132.8	1,167.9
Budgeted Revenues and Other Sources	16,387.2	17,327.5	18,170.0	19,799.8	20,165.0	21,360.2
Mass Transit Assessments from Municipalities	143.9	147.6	151.5	155.6	159.9	163.9
Interfund Transfers among Budgeted Funds and Other Sources	399.7	896.2	901.8	1,449.2	1,242.0	394.2
Total Revenues and Other Sources	16,930.8	18,371.3	19,223.3	21,404.6	21,566.9	21,918.3
<u>Expenditures and Uses</u>						
Programs and Services	14,010.3	14,650.7	15,218.8	16,238.6	17,341.1	19,017.6
Debt Service	1,230.9	1,183.6	1,275.5	1,213.4	1,173.8	1,196.7
Pensions	968.8	1,004.6	1,069.2	1,069.8	990.2	987.4
Interfund Transfers to Non-budgeted Funds And Other Uses	40.4	42.2	385.5	479.9	739.6	180.7 (3)
Budgeted Expenditures and Other Uses	16,250.5	16,881.1	17,949.0	19,001.7	20,244.7	21,382.4
Payment of Municipal Mass Transit Assessments to the MBTA and RTA's	143.9	147.6	151.5	155.6	159.9	163.9
Interfund Transfers among Budgeted Funds and Other Uses	399.7	896.2	901.8	1,449.2	1,242.0	394.2
Total Expenditures and Other Uses	16,794.1	17,924.9	19,002.3	20,606.5	21,646.6	21,940.5
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	136.7	446.4	221.0	798.1	(79.7)	(22.2)
Transfer of Excess to Capital Projects Fund	---	---	---	---	---	(80.5)(4)
Net Balance	---	---	---	---	---	(102.7)
<u>Ending Fund Balances</u>						
Reserved or Designated	128.1	263.4	225.1	286.3	330.2	51.1
Tax Reduction Fund	--	231.7	91.8	367.7	6.8	6.9
Stabilization Fund	425.4	543.3	799.3	1,159.6	1,388.5	1,596.9
Undesignated	172.5	134.0	277.8	378.5	386.9	354.8
Total	\$ 726.0	\$ 1,172.4	\$ 1,394.0	\$ 2,192.1	\$ 2,112.4	\$ 2,009.7

SOURCE: Fiscal 1995-1999, Office of the Comptroller, fiscal 2000, Executive Office for Administration and Finance.

- (1) Totals may not add due to rounding.
- (2) The fund balance restatement for fiscal 1997 is the result of the reclassification of the Drug Analysis Fund from a non-budgeted fund to a budgeted fund.
- (3) Does not reflect the Governor's proposal to use surplus revenues to retire debt. See "2000 FISCAL YEAR."
- (4) The amount of any Capital Projects Fund transfer will be determined by the Comptroller when the books are closed for fiscal 2000 on October 31, 2000. After the books are closed, such amount will be treated as an interfund transfer to non-budgeted funds and other uses.

At the end of the last three fiscal years, the Legislature has mandated extraordinary fund transfers that have had the effect of using revenues collected in those years that would otherwise have been surplus. Such transfers are included in the table above under "Interfund Transfers among Budgeted Funds and Other Sources" and "Interfund Transfers to Non-budgeted Funds and Other Uses." In addition, at the end of fiscal 1997 and fiscal 1998 the Legislature increased the statutory ceiling on Stabilization Fund deposits. The effect of those changes was to increase the ceiling for fiscal 1997 to approximately \$908.5 million and for fiscal 1998 to approximately \$1.485 billion. By the end of fiscal 1999, the Stabilization Fund had a balance of approximately \$1.389 billion, measured against a ceiling of approximately \$1.512 billion. See "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS – Operating Fund Structure; *Year-end Surpluses*."

On account of fiscal 1997, such extraordinary transfers included transfer of (i) \$229.8 million to a Capital Investment Trust Fund to finance certain specified capital expenditures, (ii) \$100 million to the Stabilization Fund (in addition to the \$134.3 million transfer required by state finance law), (iii) \$128 million to a Caseload Increase Mitigation Fund to finance Department of Transitional Assistance programs in the event caseloads increase beyond budgetarily contemplated levels and (iv) \$20.2 million to the Massachusetts Water Pollution Abatement Trust for state capitalization grants for the state revolving fund programs (see "OTHER COMMONWEALTH LIABILITIES – Massachusetts Water Pollution Abatement Trust"). In addition, the Comptroller transferred approximately \$89.5 million to the capital projects funds pursuant to the provisions of state finance law governing year-end surpluses.

On account of fiscal 1998, such transfers included transfer of (i) \$162.5 million to a newly established Tax Exemption Escrow Trust Fund, where such amounts were held until the end of fiscal 1999, when they were transferred with interest back to the General Fund (the effect of this provision being to charge to fiscal 1998 the allocable cost of certain retroactive income tax reductions – see "COMMONWEALTH REVENUES – State Taxes"), (ii) \$45 million to a new Brownfields Revitalization Fund for expenditure on Brownsfields-related costs through fiscal 2001, (iii) \$60 million to a new Teacher Quality Endowment Fund, the earnings on which are to be used to pay signing bonuses to incoming teachers and salary bonuses to existing teachers under a new master teacher corps program, with the corpus of the fund to be left intact, (iv) \$200 million to the Tax Reduction Fund, which moneys were applied to a temporary increase in the personal exemptions applicable to 1998 income taxes, (v) \$150 million to the Stabilization Fund (in addition to the \$167.4 million transfer required by state finance law) and (vi) approximately \$189.2 million to a Capital Improvement and Investment Trust Fund to finance various specified capital expenditures. The Legislature also authorized approximately \$62.9 million in additional revenues from the state lottery to be distributed to cities and towns on account of fiscal 1998 and made approximately \$70.9 million of fiscal 1998 appropriations available for expenditure in fiscal 1999 to fund various collective bargaining agreements. In addition, the Comptroller transferred approximately \$111.6 million to the capital projects funds pursuant to the provisions of state finance law governing year-end surpluses.

On account of fiscal 1999, such transfers included the transfer of (i) approximately \$408.9 million to a Debt Defeasance Trust Fund to establish a sinking fund for certain outstanding Commonwealth debt, (ii) \$118.6 million to the Capital Improvement and Investment Trust Fund for specified capital expenditures, (iii) \$86 million to a Collective Bargaining Reserve Fund and (iv) \$92 million to a Transitional Escrow Fund to be expended subject to appropriation by December 31, 1999. Any unappropriated balances in the Transitional Escrow Fund as of December 31, 1999 are to be transferred 40% to the Capital Projects Fund and 60% to the Stabilization Fund. In addition, pursuant to state finance law, approximately \$110.4 million was transferred to the Capital Projects Fund and approximately \$165.6 million was transferred to the Stabilization Fund.

Selected Financial Data–GAAP Basis

The following table provides financial results on a GAAP basis for fiscal years 1995 through 1999 for all budgeted operating funds of the Commonwealth.

Budgeted Operating Funds Operations—GAAP Basis
(in millions)

	<u>Fiscal 1995</u>	<u>Fiscal 1996</u>	<u>Fiscal 1997</u>	<u>Fiscal 1998</u>	<u>Fiscal 1999</u>
Beginning fund balances (deficits)	<u>\$ (72.0)</u>	<u>\$ 287.4</u>	<u>\$ 709.2</u>	<u>\$ 1,096.3</u>	<u>\$ 1,841.4</u>
Equity transfer	<u>91.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Restated beginning balances (deficits)	<u>19.0</u>	<u>287.4</u>	<u>709.2</u>	<u>1,096.3</u>	<u>1,841.4</u>
Revenues and Financing Sources					
Taxes	11,253.4	11,916.9	13,020.8	14,021.8	14,308.1
Federal Grants and Reimbursements	2,850.0	2,945.2	3,073.4	3,337.6	3,425.8
Department and Other Revenues	1,336.3	1,306.1	1,346.4	1,404.0	927.4
Interfund Transfers and Other Sources	<u>1,077.8</u>	<u>1,356.4</u>	<u>1,405.3</u>	<u>1,576.5</u>	<u>1,994.4</u>
Total	<u>16,517.5</u>	<u>17,524.6</u>	<u>18,845.9</u>	<u>20,339.9</u>	<u>20,655.7</u>
Expenditures and Financing Uses					
Programs and Services	13,017.8	13,729.6	14,581.4	15,477.6	16,471.3
Debt Service	1,163.4	1,392.9	1,275.5	1,213.3	1,173.8
Pensions	642.2	382.5	413.1	414.3	324.2
Interfund Transfers and Other Uses	<u>1,425.7</u>	<u>1,597.8</u>	<u>2,188.8</u>	<u>2,489.6</u>	<u>2,822.9</u>
Total	<u>16,249.1</u>	<u>17,102.8</u>	<u>18,458.8</u>	<u>19,594.8</u>	<u>20,792.2</u>
Excess	268.4	421.8	387.1	745.1	(136.5)
Ending fund balances (deficits)	<u>\$ 287.4</u>	<u>\$ 709.2</u>	<u>\$ 1,096.3</u>	<u>\$ 1,841.4</u>	<u>\$ 1,704.9</u>

SOURCE: Office of the Comptroller

Using a modified accrual basis of accounting, the GAAP financial statements have provided a picture of the financial condition of the budgeted operating funds that is different from that reported on the statutory basis. See "Selected Financial Data – Statutory Basis." As evidenced in the trend line of fund balance (deficit) over time, however, there is a correlation between the GAAP basis measurement and the statutory basis measurement. While the difference in fund balance may vary in a given fiscal year, both balances trend in the same direction. For a description of the differences between statutory basis and GAAP basis accounting, see "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS – Fiscal Control, Accounting and Reporting Practices of the Comptroller; GAAP *Basis Accounting*."

2000 FISCAL YEAR

On May 8, 1999 the House of Representatives approved its version of the fiscal 2000 budget, and on June 10, 1999 the Senate approved its version. On October 13, 1999, after extended negotiations, the President of the Senate and the Speaker of the House announced an agreement in principle concerning the budget. On November 10, 1999 the legislative conference committee considering the House and Senate versions of the budget released its report, and the budget was enacted by both houses of the Legislature later that day. Prior to enactment of the final budget, the Commonwealth operated under a series of five monthly interim budgets providing cumulatively for spending through November 30, 1999.

On November 16, 1999 the Governor approved the budget, but vetoed approximately \$250 million of appropriations. On November 17, 1999 the Legislature overrode approximately \$190 million of the Governor's vetoes. On January 26, 2000 Governor Cellucci filed a supplemental budget valued at \$290.9 million, including \$50 million for the state's pension funding schedule, \$22 million for one-time relief grants and revolving loans to health care providers and \$15.5 million for snow and ice removal on state highways. The supplemental budget also includes a transfer of \$29.4 million transfer to the Capital Improvement and Investment Trust Fund for improvements at the Registry of Motor Vehicles and firefighter safety equipment grants. On February 25, 2000 the Governor approved legislation providing for approximately \$113.9 million of additional fiscal 2000 expenditures, including the \$50 million for the state's pension funding schedule. The Executive Office for Administration and Finance anticipates the need to file a supplemental budget request for the Medicaid program in fiscal 2000. The anticipated supplemental budget request is due to higher than expected increases in the cost of long-term care and

higher than projected Medicaid caseloads. The Executive Office for Administration and Finance projects fiscal 2000 spending of approximately \$21.382 billion, a 5.6% increase over fiscal 1999 spending.

The fiscal 2000 budget appropriates \$910 million for the pension funding schedule, as recommended by the Governor. As noted above, Governor Cellucci has also approved legislation providing for an additional \$50 million in fiscal 2000 appropriations for the schedule. See "2001 FISCAL YEAR" and "OTHER COMMONWEALTH LIABILITIES – Retirement Systems and Pension Benefits; *Current Funding Schedule and Actuarial Valuations*." The budget also includes "forward funding" legislation that will substantially modify the state's funding mechanisms for the Massachusetts Bay Transportation Authority. See "COMMONWEALTH PROGRAMS AND SERVICES – Massachusetts Bay Transportation Authority."

The fiscal 2000 budget established a Health Care Security Trust Fund, to which will be credited all payments received by the Commonwealth pursuant to the national litigation settlement with the tobacco industry, and a Tobacco Settlement Fund. Thirty percent of the settlement payments received by the Commonwealth and 30% of the investment earnings generated by the Health Care Security Trust Fund are to be transferred annually to the Tobacco Settlement Fund, where they may be used, subject to appropriation, for health-related purposes, including tobacco control, but are not to be used to supplant or replace other state expenditures or obligations.

The fiscal 2000 budget as enacted was based on the consensus tax revenue estimate of \$14.850 billion that had been agreed to by both houses of the Legislature in late April, 1999. Tax law changes in the budget reduced the estimate by \$145 million to \$14.705 billion. Through December, 1999 year-to-date tax collections were approximately \$333 million, or 5.0%, higher than during the comparable period in fiscal 1999 and \$291 million higher than the midpoint of the monthly benchmark range incorporated in the \$14.705 billion estimate. Accordingly, the Executive Office for Administration and Finance increased the fiscal 2000 tax estimate at the time the Governor filed his fiscal 2001 budget recommendations by \$583 million, to \$15.288 billion. The revised estimate assumes that fiscal 2000 tax collections will exceed fiscal 1999 collections by 6.9%. The Department of Revenue estimates that baseline growth in tax revenues, factoring out changes in tax law, was approximately 9.5% during the first half of fiscal 2000; baseline growth of approximately 5.6% will be required during the second half of the fiscal year to realize the revised estimates. Tax collections in January, 2000 totaled \$1.684 billion, an increase of \$115 million, or 7.4%, over January, 1999. Through January 2000, baseline growth in tax revenues was approximately 9.2%. Fiscal year-to-date tax collections through January, 2000 totaled \$8.723 billion, an increase of \$449 million, or 5.4%, over the comparable period in fiscal 1999. The fiscal year-to-date benchmark range through January, 2000, based on the revised estimate of \$15.288 billion, was \$8.536 billion to \$8.736 billion. Preliminary figures indicate that tax collections in February, 2000 totaled \$865.3 million, an increase of \$113.5 million, or 15.1%, over February, 1999. Preliminary results indicate that fiscal year-to-date tax collections through February, 2000 totaled \$9.589 billion, an increase of \$563.0 million, or 6.2%, over the comparable period in fiscal 1999. The fiscal year-to-date benchmark range through February, 2000 is \$9.401 billion to \$9.575 billion.

On February 9, 2000 the Governor announced a debt reduction proposal to be funded with approximately \$150 million in accumulated surplus revenues from fiscal 1997, 1998 and 1999 (now on deposit in the Capital Projects Fund) and surplus revenues expected on account of fiscal 2000, currently estimated at \$200 million. Under the Governor's proposal, such moneys would be applied to the retirement of outstanding Commonwealth debt bearing the highest interest rates.

Cash Flow

A cash flow projection for the balance of fiscal 2000 is expected to be released by the State Treasurer and the Secretary of Administration and Finance on March 6, 2000. Because of the delayed enactment of the fiscal 2000 budget, no statement was released on November 25, 1999. See "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS – Cash Management Practices of State Treasurer."

2001 FISCAL YEAR

On January 26, 2000, Governor Cellucci filed his fiscal 2001 budget recommendations with the House of Representatives. The proposal calls for budgeted expenditures of approximately \$21.346 billion. The proposed fiscal 2001 spending level represents the transfer off budget of \$645 million of sales tax revenues (and approximately

\$632 million of spending) as a result of the forward funding of the Massachusetts Bay Transportation Authority. See "COMMONWEALTH PROGRAMS AND SERVICES – Massachusetts Bay Transportation Authority." After accounting for this shift, the Governor's budget represents a \$596 million, or 2.8%, increase over estimated total fiscal 2000 expenditures of \$21.382 billion. Budgeted revenues for fiscal 2001 are estimated to be \$21.315 billion. After accounting for the revenue shift off budget, the Governor's budget submission represents a \$599 million, or 2.8%, increase over the \$21.360 billion forecast for fiscal 2000. The Governor's proposal projects a fiscal 2001 ending balance in the budgeted funds of \$1.979 billion, including a Stabilization Fund balance of \$1.599 billion.

The Governor's budget recommendation is based on a tax revenue estimate of \$14.903 billion. After accounting for the revenue shift off budget, this represents a \$260 million, or 1.7%, increase over fiscal 2000 estimated tax revenues of \$15.288 billion. The estimate reflects \$135 million in income tax cuts, including a reduction of the personal income tax rate from 5.95% to 5% over three years. See "COMMONWEALTH REVENUES – State Taxes; *Income Taxes*." A joint legislative hearing has been scheduled for March 9, 2000 to begin the process of developing a consensus tax revenue estimate for the fiscal 2001 budget. See "COMMONWEALTH REVENUES – Tax Revenue Forecasting."

The proposed budget assumes non-tax revenues of \$6.412 billion, which represents an increase of approximately \$340 million over fiscal 2000. Of the three classes of non-tax revenue, federal reimbursements, including those for Medicaid, and block grants for Temporary Assistance to Needy Families and Child Care programs most affect the Commonwealth's budgetary considerations. These payments are estimated to total \$3.808 billion in fiscal 2001. This level of federal payments represents an increase of \$202 million, or 5.6%, over fiscal 2000, the result primarily of changes in federal reimbursement for Medicaid programs. Fiscal 2001 departmental revenues are estimated at \$1.309 billion, representing an increase of approximately \$10.8 million from fiscal 2000 estimates. Consolidated transfers, the third category of non-tax revenue, consists primarily of state lottery profits which are distributed to cities and towns. Consolidated transfers are estimated to increase by \$126.4 million over fiscal 2000 levels. Lottery profits are expected to increase by \$14 million in fiscal 2001.

The Governor's budget proposal generally provides for maintaining current levels of service for most state programs but recommends increased spending for certain priority areas, including a \$133 million increase in direct education, \$206.7 million in additional local aid to cities and towns and \$227 million for inflation in the traditional Medicaid program and expansion of the MassHealth program.

The Governor's fiscal 2001 budget recommendation includes \$922 million for the state's pension funding schedule and also includes an additional \$100 million reserve to account for increased pension liabilities due to the conversion to new actuarial software. See "OTHER COMMONWEALTH LIABILITIES – Retirement Systems and Pension Benefits; *Current Funding Schedule and Actuarial Valuations*."

Under the Governor's proposed fiscal 2001 budget, the Commonwealth is expected to spend approximately \$985 million on public assistance programs. In fiscal 2001, the Commonwealth is expected to collect \$507.5 million in Temporary Assistance for Needy Families (TANF) federal block grant moneys, including the \$459.4 million block grant, \$30.6 million in TANF high-performance bonus awards and \$17.5 million in unspent funds from prior years' block grants. The budget recommendations provide for the Department of Transitional Assistance to spend \$180.6 million for Transitional Aid to Families with Dependent Children (TAFDC) benefits, employment assistance programs and emergency assistance programs. A new Department of Children, Families and Learning proposed in the budget would spend \$179.6 million for child care and family support services provided to TAFDC families who are required to work and to other low-income working families, as well as \$112.2 million that is expected be transferred from the TANF block grant to the Child Care Development Fund block grant. The Department of Social Services would be budgeted to spend \$26.3 million and the Department of Public Health would be budgeted to spend \$8.6 million for programs to prevent out-of-wedlock pregnancies.

Beginning in fiscal 2001, the Governor's budget recommends increasing the percentage of annual payments received from the national settlement with the tobacco industry that will be expended from 30% to 50%, which would still leave a Health Care Security Trust Fund balance of approximately \$1 billion by fiscal 2004. In fiscal 2001 the Governor recommends that the Trust Fund support a variety of health care initiatives, including \$29.4 million to provide enhanced dental services to MassHealth recipients.

The Governor's fiscal 2001 budget proposal recommends significant changes to the school building assistance program. See "OTHER COMMONWEALTH LIABILITIES – School Building Assistance." A new School Facilities Fund would be administered by the Massachusetts State College Building Authority, which would be renamed the Massachusetts School Building Authority. A seven-member School Facilities Commission would administer a revamped school facilities program, with state subsidies tied to per capita income and equalized property valuations in recipient communities as well as to specified incentive categories designed to promote re-use of existing buildings. The Massachusetts School Building Authority would be authorized to administer a pooled loan program within the School Facilities Fund.

The Governor's fiscal 2001 budget recommendations are now being evaluated by the House Committee on Ways and Means, the first legislative step in the process of approving a budget for fiscal 2001.

COMMONWEALTH REVENUES

In order to fund its programs and services, the Commonwealth collects a variety of taxes and receives revenues from other non-tax sources, including the federal government and various fees, fines, court revenues, assessments, reimbursements, interest earnings and transfers from its non-budgeted funds. In fiscal 1999 on a GAAP basis, approximately 66.3% of the Commonwealth's annual budgeted revenues were derived from state taxes. In addition, the federal government provided approximately 16.0% of such revenues, with the remaining 17.2% provided from departmental revenues and transfers from non-budgeted funds.

Distribution of Revenues

The following table sets forth the Commonwealth's actual revenues in its budgeted operating funds for fiscal 1995 through 1999 and estimated revenues for fiscal 2000.

Commonwealth Revenues - Budgeted Operating Funds
(in millions)(1)

	Fiscal 1995	Fiscal 1996	Fiscal 1997	Fiscal 1998	Fiscal 1999	Estimated Fiscal 2000
Tax Revenues:						
Alcoholic Beverages	\$ 60.7	\$ 59.7	\$ 60.3	\$ 60.2	\$ 61.0	\$ 61.0
Banks	205.9	218.6	140.3	156.0	108.5	112.0
Cigarettes	234.2	232.8	281.7	300.8	284.4	279.0
Corporations	911.0	876.3	963.9	1,066.9	1,008.9	1,029.0
Deeds	40.3	41.0	51.6	79.7	98.0	110.2
Income	5,974.2	6,706.9	7,181.8	8,031.9	8,036.6	8,716.0
Inheritance and Estate	209.3	188.0	202.7	191.3	173.9	177.0
Insurance	292.6	294.1	297.8	310.8	336.3	341.5
Motor Fuel	577.5	598.8	602.8	621.3	636.5	669.0
Public Utilities	88.7	132.9	109.2	131.9	132.5	108.0
Racing	12.7	11.4	10.2	9.2	8.3	8.8
Room Occupancy	68.8	72.9	80.5	96.2	119.4	136.0
Sales - Regular	1,796.6	1,886.7	2,087.7	2,122.0	2,351.2	2,529.0
Sales - Meals	344.3	358.0	381.4	392.5	436.2	455.0
Sales - Motor Vehicles	340.4	365.4	407.0	448.0	482.4	536.0
Sub-Total-Sales	2,481.3	2,610.1	2,876.1	2,962.5	3,269.8	3,520.0
Miscellaneous	6.2	5.7	5.6	7.6	17.4	20.6
Total	11,163.4	12,049.2	12,864.5	14,026.3	14,291.5	15,288.0
Non-Tax Revenues:						
Federal Reimbursements (2)	2,969.7	3,039.1	3,019.6	3,361.2	3,442.9	3,606.0
Departmental and Other Revenues	1,273.1	1,208.1	1,267.9	1,286.4	1,297.8	1,298.3
Interfund Transfers from Non - Budgeted Funds and Other Sources (3)	981.0	1,031.1	1,018.0	1,125.9	1,132.8	1,167.9
Budgeted Non-Tax Revenues and Other Sources	5,223.8	5,278.3	5,305.5	5,773.6	5,873.5	6,072.2
Budgeted Revenues and Other Sources	16,387.2	17,327.5	18,170.0	19,799.8	20,165.0	21,360.2
Mass Transit Assessments from Municipalities	143.9	147.6	151.5	155.6	159.9	163.9
Interfund Transfers among Budgeted Funds and Other Sources (3)	399.7	896.2	901.8	1,449.2	1,242.0	394.2
Total Revenues and Other Sources	\$16,930.8	\$18,371.3	\$19,223.3	\$21,404.6	\$21,566.9	\$21,918.3

SOURCE: Fiscal 1995-1999, Office of the Comptroller, fiscal 2000, Executive Office for Administration and Finance.

- (1) Totals may not add due to rounding.
- (2) Includes \$231.9 million in fiscal 1995, \$212.5 million in fiscal 1996, \$221.0 million in fiscal 1997, \$265.5 million in fiscal 1998, \$184.7 million in fiscal 1999, \$179.0 million in fiscal 2000, and an estimated \$155.0 million in fiscal 2001 resulting from claims for federal reimbursement of certain uncompensated care for Massachusetts hospitals.
- (3) Interfund transfers represent accounting transfers which reallocate resources among funds. See "Federal and Other Non-Tax Revenues" below. Includes transfers between the Stabilization Fund and the budgeted operating funds. Transfers to the Stabilization Fund were \$27.9 million, \$177.4 million, \$234.3 million, \$317.4 million and \$165.6 million in fiscal 1995, 1996, 1997, 1998 and 1999 respectively. Of the \$177.4 million transferred to the Stabilization Fund in fiscal 1996, \$81.7 million was subsequently transferred to the Tax Reduction Fund. On May 5, 1997, legislation was signed by Governor Weld authorizing appropriation of the balance in the Tax Reduction Fund for the purpose of implementing a temporary personal income tax reduction for 1997.

State Taxes

The major components of state taxes are the income tax, which accounted for approximately 56.2% of total tax revenues in fiscal 1999, the sales and use tax, which accounted for approximately 22.9%, and the business corporations tax which accounted for approximately 7.1%. Other tax and excise sources accounted for the remaining 13.8% of total fiscal 1999 tax revenues.

Income Tax. The Commonwealth assesses personal income taxes at flat rates, according to classes of income, after specified deductions and exemptions. A rate of 5.85% is applied to most types of income; the tax rate on capital gains from the sale of assets held for one year or less and from the sale of collectibles is 12%, and the tax rates on capital gains from the sale of assets owned more than one year range from 5% to 2%. Interest on obligations of the United States and of the Commonwealth and its political subdivisions is exempt from taxation.

Prior to January 1, 1999, a different rate was applied to "Part A" income (generally, interest and dividends) and "Part B" income (generally, "earned" income from employment, professions, trades, businesses, rents and royalties). The rate on Part A income was 12% prior to January 1, 1999; it was reduced to 5.95% as of January 1, 1999 and as of January 1, 2000 is the same as the rate on Part B income. The rate on Part B income was 5.95% prior to January 1, 2000, when it was reduced to 5.85%, and it is scheduled to be reduced to 5.80% on January 1, 2001 and 5.75% on January 1, 2002.

In December, 1994, Governor Weld approved legislation modifying the capital gains tax by phasing out the tax for assets held longer than six years and increasing the no-tax status threshold for personal income tax purposes. The capital gains tax change did not become effective until January 1, 1996. Accordingly, it is estimated by the Executive Office for Administration and Finance to have decreased fiscal 1996 revenues by \$40 million, fiscal 1997 revenues by \$150 million, fiscal 1998 revenues by approximately \$250 million and fiscal 1999 revenues by approximately \$360 million. It is expected to decrease fiscal 2000 tax revenues by approximately \$450 million. The no-tax status change is estimated to have reduced fiscal 1995 tax revenues by approximately \$5.5 million, and subsequent years tax revenues by \$13.3 million.

As part of the fiscal 1997 budget the Legislature established a tax deduction for the amount by which tuition payments to two- or four-year colleges, net of financial aid, exceed 25% of the taxpayer's adjusted gross income. The Department of Revenue estimates that this deduction resulted in no revenue reduction in fiscal 1997 and will result in an approximately \$14 million reduction on an annualized basis thereafter.

The fiscal 1998 budget contained three tax cuts with an aggregate fiscal 1998 cost estimated by the Department of Revenue to have been \$60.9 million – an increase in the child dependent deduction from \$600 to \$1,200 for children up to age 12 (\$15.3 million), a tax credit of up to \$6,000 over four years for septic tank improvements (\$17 million) and an earned income tax credit amounting to 10% of the federal credit (\$28.6 million). The fiscal 1999 impact of these tax cuts is estimated to have been \$15.3 million, \$18 million and \$30 million, respectively. The fiscal 2000 impact is estimated to be \$15 million, \$18 million and \$30 million, respectively.

On November 6, 1997, Acting Governor Cellucci approved legislation exempting military pensions from the state income tax, effective January 1, 1998. The Department of Revenue estimates that this exemption resulted in a fiscal 1998 revenue reduction of \$25.0 million and an approximately \$18 million reduction on an annualized basis thereafter.

On July 21, 1998, Acting Governor Cellucci approved legislation reducing the rate of tax on Part A income from 12% to 5.95%, effective January 1, 1999. The fiscal 1999 cost is estimated to have been \$117 million; the fully annualized cost is estimated to be \$239 million. The legislation also phased in a doubling of the personal exemptions applicable to the Part B income tax, effective January 1, 1998, with an estimated fiscal 1999 cost of \$600 million (which includes costs for January 1, 1998 to June 30, 1998) and an estimated fully annualized cost of \$492 million. In addition, the legislation conformed state tax law to federal law with respect to Roth and educational IRA's, deferred compensation, capital gains on the sale of a personal residence, travel and entertainment deductions and the definition of short-term capital gains. The estimated aggregate fiscal 1999 cost of these additional changes is estimated to have been less than \$5 million, and the estimated aggregate annualized cost, excluding the Roth IRA, is also estimated to be less than \$5 million. The full impact of the Roth IRA change will only be felt as those now contributing to Roth IRA's withdraw their investments, over a period starting more than 20 years from now. The

amount of the tax cut due to the Roth IRA change depends on many factors, including the amounts invested, rates of return earned on those investments and the period over which the earnings are withdrawn. No definite estimate is currently available for events so far into the future.

An initiative petition changing the income tax rate on Part A income (12% at the time the petition was filed) to whatever rate applies to Part B income, starting January 1, 2000, was approved by the voters in November, 1998.

On August 10, 1998, Acting Governor Cellucci also approved legislation providing for the transfer of \$200 million to the Tax Reduction Fund as of June 30, 1998. The legislation directed the Commissioner of Revenue to increase 1998 tax year personal exemptions so as to reduce aggregate taxes by the balance in the Tax Reduction Fund as of December 31, 1998, including any interest earned on the fund's balances (which amounted to approximately \$10 million). The personal exemption increases authorized under this legislation were for the 1998 tax year only.

The fiscal 2000 budget contained several tax law changes, three of which are anticipated to reduce tax revenues in fiscal 2000. The budget reduced the income tax rate from 5.95% to 5.75% over three years, with a 5.85% rate effective January 1, 2000, a 5.80% rate effective January 1, 2001 and a 5.75% rate effective January 1, 2002. The Department of Revenue estimates that the budgetary cost of these provisions will be approximately \$65 million in fiscal 2000, \$166 million in fiscal 2001, \$244 million in fiscal 2002 and \$293 million in fiscal 2003 and annually thereafter.

A second set of provisions that is expected to affect revenue collections in fiscal 2000 allows taxpayers, retroactively to 1996, to use capital losses more comprehensively to offset capital gains and interest and dividend income. In the absence of sufficient data to estimate precisely the potential retroactive cost of these provisions, the Department of Revenue has indicated that they could result in total reduced tax liabilities in a range of \$73 million to \$103 million for tax years 1996, 1997 and 1998. The timing of taxpayers' refund and abatement claims for previously filed tax returns is uncertain, however. The Executive Office for Administration and Finance has reduced its estimate of fiscal 2000 tax collections by approximately \$40 million to account for such potential claims. Most of the costs of the capital gains offset provisions were previously included in the baseline fiscal 2000 tax estimate of \$14.850 billion which was in place at the time the budget was enacted. The costs not previously included, which are related primarily to the ability of taxpayers to use capital losses to offset interest and dividend income above \$1,000, are estimated to be approximately \$10 million annually for fiscal 2000 and thereafter.

The fiscal 2000 budget also provided for the elimination of the "pay-to-play" provisions of Massachusetts tax law, whereby a taxpayer is required to pay a state tax assessment before appealing the ruling to the Appellate Tax Board or the courts. This proposed change is consistent with prior proposals made by the Governor. The elimination of such "pay-to-play" provisions will alter the timing of certain payments, resulting, according to Department of Revenue estimates, in reduced cash receipts during the first three years of implementation and increased cash receipts thereafter. The Department of Revenue estimates the revenue reduction at \$31 million in fiscal 2000, \$18 million in fiscal 2001 and \$3 million in fiscal 2002, with revenue increases of \$8 million to \$10 million estimated for succeeding years, subject to the length of time required to settle or adjudicate appeals cases.

Other tax law changes in the fiscal 2000 budget are not expected to affect tax revenues in fiscal 2000. Taxpayers who claim at least one over-65 exemption on their returns will be eligible for a tax credit of up to \$750 to the extent that their property tax and water and sewer payments exceed 10% of their income or if 25% of their rent payments exceed 10% of their income. To qualify for the credit, a taxpayer's income cannot exceed \$40,000 for single filers, \$50,000 for head of household filers and \$60,000 for joint filers and the assessed value of a taxpayer's residence (for taxpayers who are homeowners) cannot exceed \$400,000. The Department of Revenue values the reduction at \$30 million in fiscal 2002, and \$51 million when it is fully implemented in fiscal 2003. Another provision in the budget, also effective January 1, 2001, will increase the rental deduction from \$2,500 to \$3,000 per year. The Department of Revenue values this reduction at \$14 million when it is fully implemented in fiscal 2002. The budget also includes provisions doubling the earned income tax credit (which the Department of Revenue estimates will reduce tax collections by \$7 million in fiscal 2002 and \$15 million in fiscal 2003 and thereafter), increasing the work related dependent deduction (estimated to reduce revenues by \$9 million in fiscal 2003),

increasing the non-work related elder and disabled deduction (which is estimated to reduce revenues by \$28 million in fiscal 2001, \$75 million in fiscal 2002 and \$95 million in fiscal 2003 and thereafter), creating a tax deduction for interest paid on student loans at two and four year colleges (estimated to reduce revenues by \$3 million in fiscal 2001 and \$6 million in fiscal 2002 and thereafter), increasing the deduction for fees paid to adoption agencies (estimated to reduce tax revenues by \$1 million in fiscal 2001 and thereafter) and providing a tax credit to developers of low and moderate income housing (estimated to reduce tax revenues by \$4 million in fiscal 2001 and \$19 million in fiscal 2006 when it is fully implemented – the credit will phase out by fiscal 2011). The budget also includes a provision that extends the investment tax credit for five years.

On December 1, 1999 nine initiative petitions were filed with the Secretary of State containing sufficient signatures (at least 57,100, with no more than 25% from any one county) to place the respective measures before the 2000 session of the Legislature. On January 5, 2000 such petitions were filed with the Legislature and, if the Legislature does not enact such petitions by May 3, 2000, they may be placed before the voters in the November, 2000 election upon the collection by July 5, 2000 of an additional 9,517 signatures. See “THE GOVERNMENT – Initiative Petitions.” Three of the petitions would reduce state taxes.

One petition, which was signed by Governor Cellucci and Lieutenant Governor Swift, would set the Part B income tax rate at 5.6% on January 1, 2001, 5.3% on January 1, 2002 and 5% on January 1, 2003 and thereafter. The Governor’s fiscal 2001 budget recommendations contain an identical proposal. The Department of Revenue estimates that this proposal would reduce fiscal 2001 revenues by \$135 million, fiscal 2002 revenues by \$457 million and fiscal 2003 revenues by \$883 million. The annualized value of the reduction, once fully effective in fiscal 2004, would be approximately \$1.154 billion.

Another petition would establish credits against personal income taxes and corporate excise taxes for amounts paid as tolls for the use of the Massachusetts Turnpike, the Tobin Bridge or the Sumner, Callahan or Ted Williams Tunnels, as well as a credit against personal income taxes for amounts paid to cities and towns as motor vehicle excise taxes. The credits would take effect on January 1, 2001. The Department of Revenue estimates that the annual cost of this proposal when fully implemented in fiscal 2003 would be approximately \$645 million.

A third petition would create a deduction from Part B income for charitable contributions. The Department of Revenue estimates that the cost of this proposal would be between \$157 million and \$192 million, when fully implemented in fiscal 2002.

Sales and Use Tax. The Commonwealth imposes a 5% sales tax on retail sales of certain tangible properties (including retail sales of meals) transacted in the Commonwealth and a corresponding 5% use tax on the storage, use or other consumption of like tangible properties brought into the Commonwealth. However, food, clothing, prescribed medicine, materials and produce used in food production, machinery, materials, tools and fuel used in certain industries, and property subject to other excises (except for cigarettes) are exempt from sales taxation. The sales and use tax is also applied to sales of electricity, gas and steam for certain nonresidential use and to nonresidential and most residential use of telecommunications services.

On October 20, 1997, Acting Governor Cellucci announced that the Department of Revenue would issue regulations changing the payment schedules for approximately 15,000 sales, meals and room occupancy taxpayers that pay over \$25,000 in tax per year. Under the new simplified rules, beginning January 1, 1998, these taxpayers are required to file a tax return and make a tax payment on the 20th of each month for taxable sales made during the preceding month. Under the old rules, affected taxpayers were required to forward tax payments on the 27th of each month for taxable sales made from the 23rd of the preceding month to the 22nd of the current month, as well as file a quarterly tax return. While these new regulations do not affect the amount of tax owed, the Department of Revenue estimates that the Commonwealth realized a reduction in fiscal 1998 revenues of approximately \$105 million. This reduction was a one-time event.

Beginning January 1, 1998, sales tax receipts from establishments near the site of the proposed new Boston convention center that first opened on or after July 1, 1997 and sales tax receipts from new hotels in Boston and Cambridge that first opened on or after July 1, 1997 are required to be credited to the Boston Convention and Exhibition Center Fund. See “COMMONWEALTH BOND AND NOTE LIABILITIES – Special Obligation Debt; *Boston Convention and Exhibition Center Fund.*”

Beginning July 1, 2000, pursuant to "forward funding" legislation contained in the fiscal 2000 budget, a portion of the Commonwealth's receipts from the sales tax, generally the amount raised by a 1% sales tax with an inflation-adjusted floor, will be dedicated to the Massachusetts Bay Transportation Authority under a trust fund mechanism that will not permit future legislatures to divert the funds. In his fiscal 2001 budget recommendations, Governor Cellucci has shifted \$645 million off budget in accordance with this legislation. See "COMMONWEALTH PROGRAMS AND SERVICES – Massachusetts Bay Transportation Authority."

Business Corporations Tax. Business corporations doing business in the Commonwealth, other than banks, trust companies, insurance companies, railroads, public utilities and safe deposit companies, are subject to an excise that has a property measure and an income measure. The value of Massachusetts tangible property (not taxed locally) or net worth allocated to the Commonwealth is taxed at \$2.60 per \$1,000 of value. The net income allocated to Massachusetts, which is based on net income for federal taxes, is taxed at 9.5%. The minimum tax is \$456. Both rates and the minimum tax include a 14% surtax. The reduction in fiscal 1996 tax revenues from business corporations compared to fiscal 1995 was due primarily to an estimated \$49 million reduction resulting from the application of the "single sales factor" apportionment formula, described below. The fiscal 1997 tax revenue collections reflected an additional \$44 million reduction for the full-year impact of the "single sales" apportionment formula and a \$10 million reduction due to the impact of legislation enacted in August, 1996, which, effective January 1, 1997, changed the computation of the sales factor for certain mutual fund companies, as described below.

On November 28, 1995, Governor Weld approved legislation establishing a "single sales factor" apportionment formula for the business corporations tax. The new formula, when fully implemented, will calculate a firm's taxable income as its net income times the percentage of its total sales that are in Massachusetts, as opposed to the prior formula that took other factors, such as payroll and property into account. The new formula was made effective as of January 1, 1996 to certain federal defense contractors and phased in over five years for manufacturing firms generally. The Department of Revenue estimated that the revision reduced revenues by \$28 million in fiscal 1996, by \$34 million in fiscal 1997, by \$63 million in fiscal 1998 and by \$85 million in fiscal 1999. When the new formula becomes fully effective for all covered businesses in fiscal 2001, the Department estimates that the annual revenue reduction will be approximately \$95 million.

On August 8, 1996, Governor Weld approved legislation making two changes in the apportionment formula for the business corporations tax payable by certain mutual fund service corporations. Effective January 1, 1997, the legislation changed the computation of the sales factor; instead of sourcing sales from the state where the seller bears the cost of performing the services relating to the sale, the corporations will source sales to the state of domicile of the ultimate consumer of the service. Effective July 1, 1997, the legislation changed the prior three-factor formula to a single sales factor formula, just as the November, 1995 legislation had done for certain federal defense contractors and, over time, for manufacturing firms. Under the new law, affected corporations are required to increase their numbers of employees by 5% per year for five years, subject to exceptions for adverse economic conditions affecting the stock market or the amount of assets under their management. The Department of Revenue estimates that the changes resulted in a revenue reduction of approximately \$10 million in fiscal 1997 and will result in revenue reductions of \$39 million to \$53 million on an annualized basis thereafter, starting in fiscal 1998. These estimates do not take into account any increased economic activity that may be stimulated by the tax cuts.

On August 9, 1996, Governor Weld signed legislation providing a tax credit to shippers that pay federal harbor maintenance taxes on cargo passing through Massachusetts ports. The Department of Revenue estimates that there was no impact on revenues in fiscal 1997 as a result of this tax credit and that the annual revenue loss has been approximately \$3 million to \$4 million, beginning in fiscal 1998.

Bank Tax. Commercial and savings banks are subject to an excise tax of 12.54%. On July 27, 1995, Governor Weld approved legislation that will reduce the rate over several years to 10.5%, the same effective rate charged to other corporations. The Department of Revenue estimates that the tax cut, when fully implemented in fiscal 2000, will result in an annual \$39 million revenue loss, including the effect of provisions in the proposed legislation that would apply the tax to out-of-state banks and other financial institutions that are not currently taxed and that would lead to an estimated \$18 million annual gain.

Insurance Taxes. Life insurance companies are subject to a 2% tax on gross premiums; domestic companies also pay a 14% tax on net investment income. Property and casualty insurance companies are subject to a 2% tax on gross premiums, plus a 14% surcharge for an effective tax rate of 2.28%; domestic companies also pay

a 1% tax on gross investment income. On April 30, 1998, the House of Representative approved legislation that would over five years eliminate the 14% surcharge for property and casualty insurers and the tax on investment income for both types of domestic insurers. On August 10, 1998, Acting Governor Cellucci approved legislation that will reduce insurance company taxes over five years in essentially the manner provided in the legislation approved by the House of Representatives on April 30, 1998, though the enacted legislation, unlike the House bill, does not eliminate the 14% surcharge on the gross premium income of property and casualty insurers. The estimated fiscal 1999 cost of these changes is \$5 million, and the estimated fully phased-in aggregate annual value of these tax reductions is \$48 million.

Other Taxes. Other tax revenues are derived by the Commonwealth from motor fuels excise taxes, cigarette and alcoholic beverage excise taxes, estate and deed excises and other tax sources.

On July 24, 1996, the Legislature overrode Governor Weld's veto of legislation imposing a 25¢-per-pack tax increase on cigarettes, as well as a 25% increase in the tax on smokeless tobacco and a 15% tax on cigars and smoking tobacco, all effective October 1, 1996. The Department of Revenue estimates that these changes resulted in approximately \$74 million in additional tax revenue for fiscal 1997 and approximately \$80 million annually thereafter.

In 1992, legislation was enacted by the voters which increased the tobacco excise tax by 1.25¢ per cigarette (25¢ per pack of 20 cigarettes) and 25% of the wholesale price of smokeless tobacco, effective January 1, 1993. Under the legislation, the revenues raised by this excise tax were to be credited to the Health Protection Fund and expended, subject to appropriation by the Legislature, to pay for health programs and education relating to tobacco use. Total revenues deposited in the Health Protection Fund in fiscal 1993 and fiscal 1994 were \$59.5 million and \$116.4 million and have been \$114 million on an annualized basis since fiscal 1995.

The Commonwealth is authorized to issue special obligation highway bonds secured by a pledge of all or portion of the Highway Fund, including revenues derived from all or a portion of the motor fuels excise tax. The portion of the motor fuel excise tax currently pledged to special obligation bonds is estimated to be approximately \$218.5 million in fiscal 2000. Additional special obligation bonds may be issued in the future secured by additional portions of the motor fuels excise tax. See "COMMONWEALTH BOND AND NOTE LIABILITIES – Special Obligation Debt; *Highway Fund*." An additional portion of the motor fuel excise tax, estimated to be approximately \$318.6 million in fiscal 2000, is subject to a contingent pledge relating to grant anticipation notes issued in connection with the Central Artery/Ted Williams Tunnel project, and will be available for the payment of such notes only if nationwide federal highway spending and debt service coverage levels for the notes fall below specified levels. See "COMMONWEALTH BOND AND NOTE LIABILITIES – Federal Grant Anticipation Notes."

On November 17, 1997, the Legislature overrode Acting Governor Cellucci's veto to enact legislation authorizing the Commonwealth to issue special obligation convention center bonds secured by a pledge of certain taxes related to tourism and conventions, including a 2.75% convention center financing fee imposed by the legislation on hotel room occupancy in four Massachusetts cities. See "COMMONWEALTH BOND AND NOTE LIABILITIES – Special Obligation Debt; *Boston Convention and Exhibition Center Fund*."

Tax Revenue Forecasting

Under state law, on or before October 15 and March 15 of each year, the Secretary of Administration and Finance is required to submit to the Governor and to the House and Senate Committees on Ways and Means estimates of revenues available to meet appropriations and other needs in the current and following fiscal year. On or before October 15, January 15 and April 15, the Secretary is required to submit revised estimates for the current fiscal year unless, in his opinion, no significant changes have occurred since the last estimate of total available revenues. On or before May 15 of each year, the Secretary is required to develop jointly with the House and Senate Committees on Ways and Means a consensus tax revenue forecast for the following fiscal year. The Department of Revenue employs sophisticated economic modeling techniques and ongoing monitoring of tax revenue receipts and current taxpayer behavior to provide the Secretary with information on tax revenue trends.

In the past several years, tax revenue forecasting has been complicated by uncertainty about the national and state economies, federal and state tax law changes and decisions in various state court cases affecting tax

collections. In addition, certain tax revenues are difficult to predict with accuracy because of the variety of direct and indirect economic and non-economic factors affecting receipts.

The fiscal 1995 budget as enacted was based on a joint tax revenue estimate of \$11.328 billion (an increase of \$634 million, or 5.9%, from then-expected tax revenues for fiscal 1994), less \$19.3 million of tax cuts included in that budget. Fiscal 1995 tax revenue estimates were later reduced to \$11.151 billion due to lower than expected tax revenue collections and a \$5.5 million reduction in revenues expected to result from a change in the no-tax status threshold for Massachusetts personal income tax purposes. Actual fiscal 1995 tax revenues were \$11.163 billion, a 5.3% increase over fiscal 1994.

The fiscal 1996 budget as enacted was based on a joint tax revenue estimate of \$11.639 billion (an increase of approximately 4.4% from then-expected fiscal 1995 revenues), plus \$16 million for revenue initiatives and less \$300,000 for sales tax exemption included in the budget. On September 25, 1995, the Secretary of Administration and Finance released a fiscal 1996 tax revenue estimate of approximately \$11.653 billion, adopting the revenue estimate included in the fiscal 1996 budget, adjusted for a revenue reduction of \$1.7 million resulting from bank tax reform. On January 23, 1996, the Secretary of Administration and Finance released a revised fiscal 1996 tax revenue estimate of approximately \$11.604 billion which reflected a further reduction totaling \$44 million resulting from corporate excise tax reforms. In April, 1996 the Secretary of Administration and Finance revised the fiscal 1996 tax revenue estimate to \$11.684 billion, based on stronger than anticipated tax collections. Actual tax revenues for fiscal 1996 totaled approximately \$12.049 billion, a 7.9% increase over fiscal 1995. The Executive Office for Administration and Finance believes that much of the unanticipated growth in revenues was caused by the increase in capital gains resulting from the strong stock market in calendar year 1995.

The fiscal 1997 budget as enacted was based on a joint tax revenue estimate of \$12.177 billion. In October, 1996, the Secretary of Administration and Finance released a fiscal 1997 tax revenue estimate of approximately \$12.123 billion, which reflected various tax law changes enacted after the date of the joint estimate. On January 22, 1997, the Secretary of Administration and Finance released a revised fiscal 1997 tax revenue estimate of approximately \$12.307 billion, based on stronger than anticipated collections through December, 1996 and the assumption that \$84 million in tax cuts initially proposed by Governor Weld for fiscal 1997 would occur in fiscal 1998. On May 20, 1997, the Secretary of Administration and Finance revised the fiscal 1997 tax revenue estimate to \$12.507 billion. Actual tax revenues for fiscal 1997 totaled approximately \$12.865 billion, a 6.8% increase over fiscal 1996. The Executive Office for Administration and Finance believes that much of the unanticipated growth in revenues was caused by stronger than expected economic growth and the increase in capital gains resulting from the strong stock market in calendar year 1996.

The fiscal 1998 budget as enacted was based on a joint tax revenue estimate of \$12.85 billion. The Secretary of Administration and Finance revised the fiscal 1998 tax revenue forecast to \$13.06 billion on July 30, 1997, to \$13.2 billion on October 15, 1997, to \$13.154 billion on January 16, 1998 and to \$13.3 billion on May 5, 1998. The January 16, 1998 estimate included an aggregate \$6 million downward adjustment reflecting tax law changes enacted after October 15, 1997 and a \$140 million downward adjustment reflecting a one-time change in the sales tax payment schedule. Final fiscal 1998 revenues totaled \$14.025 billion.

The fiscal 1999 budget was enacted on the basis of a consensus tax revenue forecast of \$14.4 billion, as agreed by both houses of the Legislature and the Secretary of Administration and Finance in May, 1998. The tax cuts incorporated into the budget, valued by the Department of Revenue at \$990 million in fiscal 1999, had the effect of reducing the consensus forecast to \$13.41 billion. On August 19, 1998, the Executive Office for Administration and Finance raised the fiscal 1999 tax estimate by \$200 million to approximately \$13.61 billion. The fiscal 1999 tax estimate was raised again in the Governor's budget submission, filed on January 27, 1999, to \$14.0 billion. On May 7, 1999, the Executive Office for Administration and Finance increased its fiscal 1999 tax estimate to \$14.160 billion, an increase of \$160 million from its \$14 billion January, 1999 estimate. Fiscal 1999 tax collections totaled approximately \$14.291 billion.

The fiscal 2000 budget was enacted in November, 1999 on the basis of a consensus tax revenue forecast of \$14.850 billion, as agreed by both houses of the Legislature and the Secretary of Administration and Finance in late April, 1999. The tax cuts incorporated into the budget, valued by the Department of Revenue at \$145 million in fiscal 2000, had the effect of reducing the consensus forecast to \$14.705 billion. The fiscal 2000 tax estimate was raised to \$15.288 billion in the Governor's fiscal 2001 budget submission, filed on January 26, 2000.

Federal and Other Non-Tax Revenues

Federal revenue is collected through reimbursements for the federal share of entitlement programs such as Medicaid and, beginning in federal fiscal year 1997, through block grants for programs such as Transitional Assistance to Needy Families (TANF), formerly Aid to Families with Dependent Children (AFDC). The amount of federal revenue to be received is determined by state expenditures for these programs. The Commonwealth receives reimbursement for approximately 50% of its spending for Medicaid programs. Block grant funding for TANF is received quarterly and is contingent upon a maintenance of effort spending level determined annually by the federal government.

Departmental and other non-tax revenues are derived from licenses, registrations and fees and reimbursements and assessments for services. In fiscal 1996, a revenue maximization pilot project undertaken by the Comptroller and the Executive Office for Administration and Finance yielded almost \$39.9 million in additional federal reimbursement revenues, net of agency and vendor incentive payments, at the Department of Mental Health, Department of Mental Retardation, Department of Social Services and Division of Medical Assistance. In fiscal 1997, \$41.3 million in additional non-tax revenues resulted in net revenues of \$39.1 million deposited into the General Fund. In fiscal 1998, \$37.4 million in additional non-tax revenue resulted in \$30.9 million of net revenue for the General Fund. In fiscal 1999, \$53.7 million in additional non-tax revenue resulted in \$49.7 million of net revenue for the General Fund. In fiscal 2000, an estimated \$11.2 million in additional non-tax revenue will result in an estimated \$10.2 million of net revenue for the General Fund.

The Commonwealth began in fiscal 1997 to phase in a one-time (rather than annual) passenger vehicle registration fee, which had the effect of reducing fiscal 1998 revenues by \$13.8 million and reducing revenues annually thereafter by approximately \$55 million. (The Commonwealth is still maintaining the requirement that all parking tickets, moving violation citations, excise taxes and insurance premiums be paid before registration renewals are processed, in order to ensure that cities and towns do not lose revenue from the change to one-time vehicle registrations.) Fiscal 2000 revenue estimates assume a reduction of approximately \$11.3 million in passenger vehicle operating license renewal fees, which were scheduled to be reduced on May 1, 2000. The annual cost of the planned reduction would have been approximately \$45 million. On February 9, 2000 the Governor announced that the fees would be maintained at their existing rates.

For the budgeted operating funds, interfund transfers include transfers of profits from the State Lottery and Arts Lottery Funds and reimbursements for the budgeted costs of the State Lottery Commission, which accounted for \$709.5 million, \$727.5 million, \$770.2 million, \$848.4 million and \$870.0 million in fiscal 1995 through 1999, respectively, and which are expected to account for \$858.3 million in fiscal 2000.

In 1994, the voters in the statewide general election approved an initiative petition, effective December 8, 1994, that would slightly increase the portion of gasoline tax revenue credited to the Highway Fund, one of the Commonwealth's three major budgeted funds, prohibit the transfer of money from the Highway Fund to other funds for non-highway purposes and exclude the Highway Fund balance from the computation of the "consolidated net surplus" for purposes of state finance laws. The initiative petition also provided that no more than 15% of gasoline tax revenues could be used for mass transportation purposes, such as expenditures related to the Massachusetts Bay Transportation Authority. This law is not a constitutional amendment and is subject to amendment or repeal by the Legislature, which may also, notwithstanding the terms of the initiative petition, appropriate moneys from the Highway Fund in such amounts and for such purposes as it determines, subject only to a constitutional restriction that such moneys be used for motor vehicle, highway, or mass transportation purposes. On three occasions, the Legislature has postponed the effective date of the provision that would exclude the Highway Fund balance from the computation of the "consolidated net surplus." The most recent postponement, enacted in 1998, changed the effective date of the provision to July 1, 2000.

On August 9, 1996, Governor Weld approved legislation authorizing the State Lottery Commission to participate with other states in a multi-jurisdictional lottery. Beginning September, 1996, the Commission joined with the states of Illinois, Georgia, Maryland, Michigan and Virginia in a multi-state game that is estimated to generate an additional \$30 million per year in net lottery revenues.

Limitations on Tax Revenues

Chapter 62F of the General Laws, which was enacted by the voters in November, 1986, establishes a state tax revenue growth limit for each fiscal year equal to the average positive rate of growth in total wages and salaries in the Commonwealth, as reported by the federal government, during the three calendar years immediately preceding the end of such fiscal year. Chapter 62F also requires that allowable state tax revenues be reduced by the aggregate amount received by local governmental units from any newly authorized or increased local option taxes or excises. Any excess in state tax revenue collections for a given fiscal year over the prescribed limit, as determined by the State Auditor, is to be applied as a credit against the then current personal income tax liability of all taxpayers in the Commonwealth in proportion to the personal income tax liability of all taxpayers in the Commonwealth for the immediately preceding tax year. The law does not exclude principal and interest payments on Commonwealth debt obligations from the scope of its tax limit. However, the preamble contained in Chapter 62F provides that “although not specifically required by anything contained in this chapter, it is assumed that from allowable state tax revenues as defined herein the Commonwealth will give priority attention to the funding of state financial assistance to local governmental units, obligations under the state governmental pension systems, and payment of principal and interest on debt and other obligations of the Commonwealth.”

Tax revenues in fiscal 1995 through fiscal 1999 were lower than the limit set by Chapter 62F, and the Executive Office for Administration and Finance currently estimates that state tax revenues in fiscal 2000 will not reach such limit. For fiscal 1999, as calculated by the State Auditor pursuant to Chapter 62F, net state tax revenues were approximately \$14.302 billion and allowable state tax revenues were approximately \$15.470 billion.

COMMONWEALTH PROGRAMS AND SERVICES

The following table identifies certain major spending categories of the Commonwealth and sets forth the budgeted expenditures for each fiscal year within each category.

Commonwealth Expenditures - Budgeted Operating Funds (in millions)

<u>Expenditure Category</u>	<u>Fiscal 1995</u>	<u>Fiscal 1996</u>	<u>Fiscal 1997</u>	<u>Fiscal 1998</u>	<u>Fiscal 1999</u>	<u>Estimated Fiscal 2000</u>
Direct Local Aid	\$ 2,976.2	\$ 3,246.2	\$ 3,558.1	\$ 3,948.9	\$ 4,310.2	\$ 4,644.5
Medicaid	3,398.2	3,415.9	3,455.5	3,665.8	3,856.4	4,091.6
Group Health Insurance	509.7	519.3	522.0	550.0	565.7	604.0
Public Assistance	1,095.0	1,088.8	1,089.7	1,023.1	987.6	996.9
Debt Service	1,230.9	1,183.6	1,275.5	1,213.4	1,173.8	1,196.7
Pensions	968.8	1,004.6	1,069.2	1,069.8	990.2	987.4
Higher Education	703.3	743.9	806.5	861.8	929.8	1,009.7
MBTA and RTA's	516.2	518.5	520.2	530.0	537.7	596.0
Other Program Expenditures	4,811.7	5,118.1	5,266.8	5,659.0	6,153.7	7,074.9
Interfund Transfers to Non-budgeted Funds (1)	<u>40.4</u>	<u>42.2</u>	<u>385.5</u>	<u>479.9</u>	<u>739.6</u>	<u>180.7</u>
Budgeted Expenditures and Other Uses	<u>16,250.5</u>	<u>16,881.1</u>	<u>17,949.0</u>	<u>19,001.7</u>	<u>20,244.7</u>	<u>21,382.4</u>
Payment of Municipal Mass Transit Assessments to the MBTA and RTA's	143.9	147.6	151.5	155.6	159.9	163.9
Interfund Transfers among Budgeted Funds and Other Uses (1)	<u>399.7</u>	<u>896.2</u>	<u>901.8</u>	<u>1,449.2</u>	<u>1,242.0</u>	<u>394.2</u>
Total Expenditures and Other Uses	<u>\$ 16,794.1</u>	<u>\$ 17,924.9</u>	<u>\$ 19,002.3</u>	<u>\$ 20,606.5</u>	<u>\$ 21,646.6</u>	<u>\$ 21,940.5</u>

SOURCE: Fiscal 1995-1999, Office of the Comptroller, fiscal 2000, Executive Office for Administration and Finance.

- (1) Interfund transfers represent accounting transfers which reallocate resources among funds. Includes interfund transfers between the Stabilization Fund and the budgeted operating funds. Transfers to the Stabilization Fund were \$27.9 million, \$177.4 million, \$234.3 million, \$317.4 million and \$165.6 million in fiscal 1995, 1996, 1997, 1998 and 1999, respectively. Of the 177.4 million transferred to the Stabilization Fund in fiscal 1996, \$81.7 million was subsequently transferred to the Tax Reduction Fund. On May 5, 1997, legislation was signed by Governor Weld authorizing appropriation of the balance in the Tax Reduction Fund for the purpose of implementing a temporary personal income tax reduction for 1997.

Local Aid

Proposition 2½. In November, 1980, voters in the Commonwealth approved a statewide tax limitation initiative petition, commonly known as Proposition 2½, to constrain levels of property taxation and to limit the charges and fees imposed on cities and towns by certain governmental entities, including county governments. Proposition 2½ is not a provision of the state constitution and accordingly is subject to amendment or repeal by the Legislature. Proposition 2½, as amended to date, limits the property taxes that may be levied by any city or town in any fiscal year to the lesser of (i) 2.5% of the full and fair cash valuation of the real estate and personal property therein, and (ii) 2.5% over the previous year's levy limit plus any growth in the tax base from certain new construction and parcel subdivisions. Proposition 2½ also limits any increase in the charges and fees assessed by certain governmental entities, including county governments, on cities and towns to the sum of (i) 2.5% of the total charges and fees imposed in the preceding fiscal year, and (ii) any increase in charges for services customarily provided locally or services obtained by the city or town at its option. The law contains certain override provisions and, in addition, permits debt service on specific bonds and notes and expenditures for identified capital projects to be excluded from the limits by a majority vote at a general or special election. At the time Proposition 2½ was enacted, many cities and towns had property tax levels in excess of the limit and were therefore required to roll back property taxes with a concurrent loss of revenues. Between fiscal 1981 and fiscal 1999, the aggregate property tax levy grew from \$3.346 billion to \$6.753 billion, representing an increase of approximately 101.8%. By contrast,

according to federal Bureau of Labor Statistics, the consumer price index for all urban consumers in Boston grew during the same period by approximately 107.9%.

Many communities have responded to the limitation imposed by Proposition 2½ through statutorily permitted overrides and exclusions. There are three types of referenda questions (override of levy limit, exclusion of debt service, or exclusion of capital expenditures) which permit communities to exceed the limits of Proposition 2½. Override activity steadily increased throughout the 1980's before peaking in fiscal 1991 and decreasing thereafter. In fiscal 1999, 24 communities had successful override referenda which added an aggregate of \$8.7 million to their levy limits. In fiscal 1999, the impact of successful override referenda going back as far as fiscal 1993, was to raise the levy limits of 125 communities by \$67 million. Although Proposition 2½ will continue to constrain local property tax revenues, significant capacity exists for overrides in nearly all cities and towns.

In addition to overrides, Proposition 2½ allows a community, through voter approval, to assess taxes in excess of its levy limit for the payment of certain capital projects (capital outlay expenditure exclusions) and for the payment of specified debt service costs (debt exclusions). Capital exclusions were passed by 20 communities in fiscal 1999 and totaled \$4.6 million. In fiscal 1999, the impact of successful debt exclusion votes going back as far as fiscal 1993, was to raise the levy limits of 250 communities by \$945.8 million.

Commonwealth Financial Support for Local Governments. During the 1980's, the Commonwealth increased payments to its cities, towns and regional school districts ("Local Aid") to mitigate the impact of Proposition 2½ on local programs and services. In fiscal 2000, approximately 21.7% of the Commonwealth's budget is estimated to be allocated to direct Local Aid. Local Aid payments to cities, towns and regional school districts take the form of both direct and indirect assistance. Direct Local Aid consists of general revenue sharing funds and specific program funds sent directly to local governments and regional school districts as reported on the so-called "cherry sheet" prepared by the Department of Revenue, excluding certain pension funds and nonappropriated funds.

As a result of comprehensive education reform legislation enacted in June, 1993, a large portion of general revenue sharing funds are earmarked for public education and are distributed through a formula designed to provide more aid to the Commonwealth's poorer communities. The legislation established a fiscal 1993 state spending base of approximately \$1.288 billion for local education purposes and required annual increases in state expenditures for such purposes above that base, subject to appropriation, estimated to be approximately \$2.803 billion in fiscal 2000. All of the budgets in fiscal years 1994 through 2000 have fully funded the requirements imposed by this legislation.

Another component of general revenue sharing, the Lottery and Additional Assistance programs, provides unrestricted funds for municipal use. There are also several specific programs funded through direct Local Aid, such as highway construction, school building construction, and police education incentives.

In addition to direct Local Aid, the Commonwealth has provided substantial indirect aid to local governments, including, for example, payments for Massachusetts Bay Transportation Authority assistance and debt service, pensions for teachers, housing subsidies and the costs of courts and district attorneys that formerly had been paid by the counties. Beginning July 1, 2000, Commonwealth support for the Massachusetts Bay Transportation Authority will take the form of dedicated tax revenues. See "COMMONWEALTH PROGRAMS AND SERVICES – Massachusetts Bay Transportation Authority."

Initiative Law. A statute adopted by voter initiative petition at the November, 1990 statewide election regulates the distribution of Local Aid to cities and towns. This statute requires that, subject to annual appropriation, no less than 40% of collections from personal income taxes, sales and use taxes, corporate excise taxes and lottery fund proceeds be distributed to cities and towns. Under the law, the Local Aid distribution to each city or town is to equal no less than 100% of the total Local Aid received for fiscal 1989. Distributions in excess of fiscal 1989 levels are to be based on new formulas that would replace the current Local Aid distribution formulas. By its terms, the new formula would have provided for a substantial increase in direct Local Aid in fiscal 1992 and subsequent years. Nonetheless, Local Aid payments remain subject to annual appropriation by the Legislature, and the appropriations for Local Aid since the enactment of the initiative law have not met the levels set forth in the initiative law.

Medicaid

The Medicaid program provides health care to low-income children and families, low-income adults, the disabled, and the elderly. The program, which is administered by the Division of Medical Assistance (an agency within the Executive Office of Health and Human Services), is 50% funded by federal reimbursements. Beginning in fiscal 1999, payments for some children's benefits are 65% federally reimbursable under the federal Children's Health Insurance Program (CHIP) for states.

During fiscal years 1995, 1996, 1997, 1998 and 1999, Medicaid expenditures were \$3.398 billion, \$3.416 billion, \$3.456 billion, \$3.666 billion and \$3.856 billion, respectively. The average annual growth rate from fiscal 1995 to fiscal 1999 was 3.3%. Fiscal 1999 Medicaid expenditures increased approximately 5.2% from fiscal 1998. This amount includes \$301.3 million for an eligibility expansion of Medicaid benefits to recipients between 100%-133% of the federal poverty level and \$36.9 million in outpatient medical services to recipients of Emergency Aid to the Elderly, Disabled and Children, transferred to Medicaid from the Department of Transitional Assistance. The Executive Office for Administration and Finance projects fiscal 2000 expenditures to be \$4.092 billion, an increase of 6.1% over fiscal 1999. This amount includes \$341.4 million in spending attributable to recipients above 100% of the federal poverty level through the health care expansion.

The Division of Medical Assistance has implemented a number of savings and cost control initiatives including managed care, utilization review, and the identification of third party liabilities. In spite of increasing caseloads, Massachusetts has managed to keep annual growth in per capita expenditures low. From fiscal 1995 through fiscal 1999, per capita costs have increased an average of 2.0% annually over the five-year period. In fiscal 1999, the state expanded eligibility for the Medicaid program, resulting in a total of 943,395 members at the end of fiscal 1999 or a 19.4% increase over the average caseload of fiscal 1998.

One of the primary reasons for the recent modest rates of growth in Medicaid expenditures is the implementation by the Administration of a managed care program. A waiver of federal regulations granting recipients freedom of choice of provider was approved by federal authorities in fiscal 1992. This waiver enables the program to assign recipients to managed care plans that utilize primary care physicians to function as gatekeepers to specialty and inpatient care and enroll recipients in a capitated managed care system for mental health or substance abuse services. In addition, nursing home pre-screening and community service planning for long-term care is concentrated in 27 Aging Services Access Points (ASAP) to provide a single entry point and coordinated nursing home diversion services for elderly Medicaid recipients. Other savings initiatives, which are in addition to major rate control initiatives, include standardizing the way outpatient providers bill for services, imposing restrictions, both financial and clinical, on nursing home eligibility.

Medicaid costs for nursing home care increased from \$1.138 billion in fiscal 1995 to approximately \$1.295 billion in fiscal 1999 and currently account for 31.5% of the Medicaid budget. Over 37,800 elderly and disabled citizens were cared for in nursing homes each month through Medicaid in fiscal 1999. The annual cost per beneficiary in a nursing home is approximately \$33,717. On an overall basis, Medicaid pays 70% of all nursing home costs in the Commonwealth. In an effort to control the increasing costs of nursing home services, the Division of Medical Assistance has strengthened admissions criteria to ensure that those not needing this care use less costly community services. This, along with certain other initiatives, has limited the average annual increase in long-term care costs to approximately 5.95% between fiscal 1995 and fiscal 1999 on a date-of-service basis.

In addition to a number of successful savings and cost control initiatives the Commonwealth has undertaken in the last five years, the Medicaid program has also expanded and streamlined eligibility criteria for recipients in accordance with the health care reform bills approved by the Legislature in July, 1996, July, 1997 and November, 1997. As a result, beginning in fiscal 1998, the Division was authorized to expand the Medicaid eligibility cutoff to 133% of the federal poverty level for adults and up to 200% of the federal poverty level for pregnant women and children through the age of 18. In addition, the Commonwealth has implemented a program of premium assistance and employer subsidies for purchasing employer-based health coverage for families and childless adults up to 200% of the federal poverty level. These changes resulted in 240,000 additional people becoming enrolled in a Medicaid benefits plan by the end of fiscal 1999. Pharmacy assistance to seniors, a program which began in fiscal 1998, continued to grow in fiscal 1999 with expenditures increasing by 66%.

Public Assistance

The Commonwealth administers four major programs of income assistance for its poorest residents: Transitional Aid to Families with Dependent Children (TAFDC), Emergency Assistance (EA), Emergency Aid to the Elderly, Disabled and Children (EAEDC) and the state supplement to federal Supplemental Security Income (SSI). The following table illustrates the recent expenditures within these categories.

Public Assistance Program Expenditures
(in millions)

Category of Public Assistance	<u>Fiscal 1995</u>	<u>Fiscal 1996</u>	<u>Fiscal 1997</u>	<u>Fiscal 1998</u>	<u>Fiscal 1999</u>	<u>Estimated Fiscal 2000</u>
TAFDC(1)	\$ 782.7	\$ 675.0	\$ 598.8	\$ 513.9	\$ 450.7	\$ 399.7
Child Care (2)	—	111.0	194.1	237.4	269.8	329.6
EAEDC (formerly General Relief)(3)	119.7	105.9	103.7	68.3	63.3	60.7
SSI(4)	192.6	196.9	193.1	203.5	203.8	206.9
Total(5)	<u>\$ 1,095.0</u>	<u>\$ 1,088.8</u>	<u>\$ 1,089.7</u>	<u>\$ 1,023.1</u>	<u>\$ 987.6</u>	<u>\$ 996.9</u>

SOURCE: Fiscal 1995-1999, Office of the Comptroller; fiscal 2000, Executive Office for Administration and Finance.

- (1) Includes expenditures for Transitional Aid to Families with Dependent Children (TAFDC); for the Employment Services Program (ESP); and for Emergency Assistance, a program designed to prevent homelessness and to shelter income-eligible families when they become homeless.
- (2) Child care expenditures were previously included as part of the TAFDC total in fiscal 1996, 1997, 1998 and 1999.
- (3) Includes outpatient medical services to EAEDC recipients in fiscal 1995 through fiscal 1997.
- (4) Includes benefits for blind recipients which are administered by the Massachusetts Commission for the Blind; includes one-time retroactive payments in fiscal 1998 to recipients to reimburse them for fiscal 1997 administrative charges; and includes payments made to SSI recipients out of an EAEDC account in fiscal 1998.
- (5) The TAFDC total includes expenditures for direct services to homeless individuals in fiscal 1995, 1996 and 1997. It does not include expenditures for the Teen Living Program in fiscal 1996 and 1997. The child care total does not include supportive child care for victims of abuse and neglect, informal child care expenditures for child care provided by relatives in fiscal 1996 or certain one-time quality expenditures in fiscal 1998. It includes temporary child care provided at the Trial Court in fiscal 1998 and 1999. Based on the programs contained in the fiscal 1999 estimate, the adjusted Public Assistance total would be \$1,217.1 for fiscal 1995; \$1,110.7 for fiscal 1996; \$1,065.6 for fiscal 1997; and \$1,022.8 for fiscal 1998.

TAFDC expenditures in fiscal 2000 are estimated to be \$399.7 million, approximately \$50.9 million less than fiscal 1999. This decrease is due to the continuing decline in the TAFDC caseload and the beginning of cases reaching the end of their two-year time limit on benefits. Child care expenditures for fiscal 2000 are estimated to be \$329.6 million, approximately \$61.1 million more than in fiscal 1999. This increase is the result of increasing expenditures on child care services for current and former TAFDC recipients and other low-income families.

The TAFDC caseload has been declining steadily since fiscal 1995, resulting in a 44.2% decrease through fiscal 1999. Massachusetts began implementing welfare reform programs in November 1995, establishing TAFDC programs to encourage work as a means to self-sufficiency and to discourage reliance on long-term assistance. With the improved Massachusetts economy, new work incentives, aggressive child support collections, anti-fraud initiatives, and the implementation of the two-year time limit on benefits, the caseload is expected to continue declining through fiscal 2000. The following table illustrates the decline in caseload for public assistance programs.

Public Assistance Average Caseload

	<u>Fiscal 1995</u>	<u>Fiscal 1996</u>	<u>Fiscal 1997</u>	<u>Fiscal 1998</u>	<u>Fiscal 1999</u>	<u>Estimated Fiscal 2000</u>
Category of <u>Public Assistance</u>						
TAFDC(1)	102,782	88,988	79,131	68,813	57,274	47,169
EAEDC (formerly General Relief)	20,395	17,282	16,895	16,305	15,171	14,023
SSI(2)	<u>153,248</u>	<u>159,748</u>	<u>160,924</u>	<u>160,700</u>	<u>162,470</u>	<u>163,271</u>
Total	<u>276,425</u>	<u>266,018</u>	<u>256,950</u>	<u>245,818</u>	<u>234,915</u>	<u>224,463</u>

SOURCE: Department of Transitional Assistance

- (1) TAFDC caseload estimates do not include the Emergency Assistance caseload.
 (2) SSI caseload does not include blind recipients whose benefits are administered by the Massachusetts Commission for the Blind.

The Emergency Assistance program provides disaster relief and shelter to homeless families. The cost of this program is included in the TAFDC expenditure category above.

The EAEDC caseload has also been declining steadily since fiscal 1995, resulting in a 25.6% decrease through fiscal 1999. The decline can be attributed to factors similar to those affecting the AFDC/TAFDC caseload, as well as a state initiative to move qualified EAEDC recipients to the more comprehensive SSI program, taking advantage of federal funding not available under the state funded EAEDC program. The fiscal 2000 expenditures for EAEDC are estimated to be \$60.7 million, \$2.6 million less than fiscal 1999.

SSI is a federally administered and funded cash assistance program for individuals who are elderly, disabled or blind. SSI payments are funded entirely by the federal government up to \$512 per individual recipient per month and entirely by the state above that amount. The additional state supplement ranges from \$39 to \$454 per month per recipient. The SSI caseload has been increasing over the past five years, due to SSI policy changes, increased advocacy efforts on behalf of disabled populations, and the growing population of aged individuals, but the rate of growth has been declining since fiscal 1994. The fiscal 2000 expenditures for SSI are estimated to be \$206.9 million, a \$3.1 million increase over fiscal 1999.

Federal Welfare Reform

The federal welfare reform legislation that was enacted on August 22, 1996 eliminated the federal entitlement program of AFDC and replaced it with block grant funding for Temporary Assistance for Needy Families (TANF). The TANF program replaced Title IV-A of the Social Security Act and allows states greater flexibility in designing programs that promote work and self-sufficiency. The block grant for Massachusetts is \$459.37 million annually for federal fiscal years 1997 through 2002. In addition, Massachusetts will receive approximately \$81.7 million in child care block grant funds to support child care programs. Massachusetts must meet federal maintenance of effort (MOE) requirements in order to be eligible for the full TANF grant award. Massachusetts successfully met the MOE requirement in federal fiscal 1997, 1998 and 1999 and is working with the U.S. Department of Health and Human Services in order to maximize the state spending that can count toward the fiscal 2000 requirement.

Other Controls and Reforms

The Department of Transitional Assistance in recent years has instituted tighter procedures and management controls. Stricter standards have been established to determine eligibility for AFDC/TAFDC, Emergency Assistance and EAEDC benefits, including implementation of new disability criteria for EAEDC benefits. The Department of Transitional Assistance also has instituted automated systems to redetermine eligibility for benefits and has taken steps to reduce welfare fraud. In addition, the Department of Revenue has improved its collection of child support payments.

The Benefit Eligibility and Control On-Line Network (BEACON) is an integrated recipient eligibility system that automates the public assistance programs administered statewide by the Department of Transitional Assistance. This system will end outdated intake processes and will enable the Commonwealth more accurately to

determine eligibility, provide appropriate services and track recipients through a consolidated process. The statewide rollout of the system is expected to be completed during fiscal 2000.

The Electronic Benefit Transfer (EBT) system provides cash assistance and food stamp recipients with access to benefits via a single magnetic strip card that can be used at bank automated teller machines. The Commonwealth has contracted with a commercial bank to provide EBT services. The statewide implementation was completed in October, 1997.

These projects provide the Commonwealth with the reporting capabilities that are necessary under the federal welfare reform law.

Massachusetts Bay Transportation Authority

The Massachusetts Bay Transportation Authority (MBTA) finances and operates mass transit facilities in eastern Massachusetts. The MBTA issues its own bonds and notes and is also responsible for the payment of obligations issued by the Boston Metropolitan District prior to the creation of the MBTA in 1964. Historically, the Commonwealth has provided financial support of the MBTA through guaranties of the debt service on its bonds and notes, contract assistance equal to 90% of the debt service on outstanding MBTA bonds and payment of its net cost of service (current expenses, including debt service and lease obligations that are not otherwise provided for, minus current income). The MBTA's net cost of service has been financed by the issuance of short-term notes by the MBTA and by cash advances from the Commonwealth. The Commonwealth has then assessed the net cost of service in arrears on the cities and towns in the MBTA territory after deducting certain contract assistance appropriated in the state budget. Because Proposition 2½, as amended, has generally limited the increase in local assessments from one year to the next to 2.5% of the prior year's assessment, the portion of the MBTA's net cost of service that has ultimately been paid from state appropriations has grown substantially. Additionally, this practice has resulted in substantial cash subsidies paid out by the Commonwealth well in advance of appropriations to fund them.

On November 16, 1999, the Governor approved legislation, enacted as part of the fiscal 2000 budget, containing "forward funding" provisions for the MBTA and rewriting the MBTA's enabling act. Under the new enabling act, which will take effect on July 1, 2000, the Commonwealth's annual obligation to support the MBTA for operating costs and debt service will be limited to a portion of the revenues raised by the Commonwealth's sales tax, to be funded from existing sales tax receipts. The sales tax amount, generally the amount raised by a 1% sales tax with an inflation-adjusted floor, will be dedicated to the MBTA under a trust fund mechanism that will not permit future legislatures to divert the funds. The dedicated revenue stream will be disbursed to the MBTA without state appropriation to be used to meet the Commonwealth's current debt service contract assistance obligations relating to MBTA debt and to meet the MBTA's other operating and debt service needs. The Commonwealth will not be liable to pay the MBTA's net cost of service, nor will the Commonwealth be liable for debt service contract assistance on MBTA bonds issued after June 30, 2000.

To retire the MBTA's outstanding operating notes (\$165 million due February 25, 2000 and \$160 million due September 1, 2000) and to finance cash advances on account of the MBTA's net cost of service for calendar year 1999 and the first six months of calendar year 2000, the legislation authorizes the Commonwealth to issue up to \$800 million in general obligation bonds. The legislation also directs the Comptroller to transfer as of June 30, 2000 from the Highway Capital Projects Fund to the General Fund an amount equal to the total outstanding amount advanced by the Commonwealth to the MBTA and to establish by March 1, 2000 a 20-year level-funded schedule of payments projected to fully amortize by July 1, 2020 the liability in the Highway Capital Projects Fund created by the foregoing transfer. In a letter submitted March 1, 2000 to the Secretary of Administration and Finance and the Legislature, the Comptroller reported that the amount of the liability is expected to be approximately \$450.0 million (estimated net cost of service for the 18 months ending June 30, 2000 of approximately \$775.0 million less \$325 million of notes paid by Commonwealth bonds), which would require annual accounting transfers in the amount of approximately \$22.5 million. The letter notes that questions have been raised as to whether the amount of the liability should be increased to reflect additional working capital requirements of the MBTA. The amount identified in the letter of approximately \$147.0 million for additional working capital would increase the amount to be amortized to \$597 million, which would require annual accounting transfers of

approximately \$29.9 million. The Governor's fiscal 2001 budget recommendations include \$27.5 million for this purpose. The final figure will be computed after the books are closed for fiscal 2000.

The new enabling act expands the number of cities and towns required to pay annual assessments to the MBTA, but reduces the aggregate amount of assessments to approximately \$136 million, to be phased in over five years. After the phase-in, aggregate assessments will be adjusted annually for inflation but will not be permitted to increase by more than 2.5% per year. The legislation provides that in order to draw down dedicated sales tax receipts or municipal assessments from the state treasury, the MBTA must first certify that it has made provision in its annual budget for sufficient amounts to be available to meet debt service payments or other payments due under financing obligations for which the Commonwealth has pledged its credit or contract assistance or is otherwise liable or as to which the MBTA has covenanted to maintain net cost of service or contract assistance support. The new enabling act also provides explicitly that to the extent the dedicated sales tax receipts and municipal assessments are insufficient in any year to meet the MBTA's debt service payments with respect to such obligations, the Commonwealth shall remain liable for the payment of such obligations or the provision of net cost of service or contract assistance support as to such obligations to the same extent as before the enactment of the legislation. The amount of any support provided to the MBTA beyond the dedicated sales tax receipts and municipal assessments is to be in the form of a no-interest loan repayable within five years from the MBTA's system revenues and the dedicated sales tax receipts and municipal assessments.

MBTA operating expenses (total expenses less debt service) for fiscal years 1995, 1996, 1997, 1998 and 1999 were approximately \$516.1 million, \$494.5 million, \$520.5 million, \$550.8 million and \$610.5 million, respectively, and are estimated to be approximately \$623.4 million for fiscal 2000. In light of major capital expenditures during recent years, MBTA debt service costs have increased steadily. MBTA debt service expenses for fiscal years 1995, 1996, 1997, 1998 and 1999 were approximately \$233.3 million, \$258.1 million, \$279.7 million, \$301.1 million and \$310.8 million, respectively, and are estimated to be \$326.8 million for fiscal 2000.

Under state law, the MBTA continues to report its net cost of service to the Commonwealth on a calendar year basis for reimbursement and assessment purposes. The following table sets forth for the calendar years ended December 31, 1995 through December 31, 1999 (estimated) and for the six months ended June, 2000 (estimated), the amounts of (i) the MBTA's cost of service in excess of the MBTA's income from its own sources, (ii) federal operating assistance, (iii) Section 28 debt service contract assistance, (iv) additional contract assistance, (v) interest and other charges incurred in state borrowings by the Commonwealth and (vi) the total of the Commonwealth's assessments on the cities and towns for the net cost of service allocated to such year.

MBTA Net Cost of Service Assessments
(in millions)

Year Ended December 31	Cost of Service in Excess Of Income	Less: Federal Operating Assistance	Less: Section 28 Contract Assistance (1)	Less: Additional Contract Assistance and Other State Assistance(2)	Subtotal	Interest And Other Charges (3)	Amount Assessed Or to be Assessed
1995	\$585.7	\$13.4	\$208.7	\$240.8	\$122.8	\$11.5	\$134.3
1996	599.6	8.1	237.7	229.2	124.6	13.0	137.6
1997	628.5	7.1	253.2	239.9	128.2	12.8	141.1
1998	674.4	6.1	264.6	271.2	132.6	12.0	144.6
1999 (est.)	745.8	6.5	270.9	335.8	132.6	12.0	144.6

Source: Massachusetts Bay Transportation Authority.

- (1) Contract assistance under Section 28 of the MBTA's enabling act for payment of a portion of debt service on certain of the MBTA's indebtedness.
- (2) Additional contract assistance and other state assistance provided by the Commonwealth.
- (3) Includes interest and other charges incurred in state borrowings by the Commonwealth and Boston Metropolitan District expenses of \$25,000 in each year.

Other Programs

In addition to those expenditures described above, the Commonwealth also expends substantial amounts on other programs and services. A large share of the estimated fiscal 2000 spending in this category, \$3.138 billion, consists of spending on human services programs other than Medicaid and public assistance, detailed earlier. This other human services spending for fiscal 2000 includes expenditures for the Department of Mental Retardation (\$857.7 million), Department of Mental Health (\$574.6 million), Department of Social Services (\$539.4 million), Department of Public Health (\$496.0 million) and other human services programs (\$671.1 million). The remaining \$3.936 billion in estimated expenditures on other programs and services cover a wide variety of functions of state government, including, in particular, expenditures for the Judiciary (\$557.7 million), District Attorneys (\$71.8 million) and the Attorney General (\$29.7 million) and for the Executive Offices for Administration and Finance (\$671.9 million), Environmental Affairs (\$233.5 million), Transportation and Construction (\$160.0 million), Public Safety (\$857.3 million) and Elder Affairs (\$163.8 million) and the Department of Housing and Community Development (\$140.0 million).

State Workforce

As of December 25, 1999, the Commonwealth had approximately 71,350 full-time equivalent employees ("FTEs") in its standard workforce delivering programs and services funded by annual operating budget appropriations and retained revenues. This number does not include 365 seasonal FTEs or 111 members of boards and commissions. Approximately 56,472 of these FTEs work in executive branch agencies (including the Commonwealth's state and community colleges and the University of Massachusetts) under the control of the Governor, while the others work in the Legislature, the Judiciary and other entities constitutionally or legally independent of the Governor (such as the offices of the State Treasurer, State Secretary, State Auditor and Attorney General). During fiscal 1999, approximately \$3.1 billion was expended for salaries for state employees funded through the annual operating budget. Between January, 1991 and December, 1999, the size of the standard workforce funded through the annual operating budget was reduced by approximately 844 FTE positions, or 1.2%. Starting in fiscal 1998, certain of the Commonwealth's county governments have been abolished and their sheriffs' departments and deeds registries have become state agencies independent of the Governor. As of December 25, 1999, there were approximately 3,097 FTEs in these agencies. Without the staff of these former county agencies, the net reduction in the state workforce between January, 1991 and December, 1999 would have been approximately 3,941, or 5.5%. Between January, 1991 and December, 1999, the net workforce reduction in agencies under the control of the Governor, including the university and colleges, was approximately 6,372, or 10.1%.

Budget-Funded Standard Workforce (1)

	<u>June 1988</u>	<u>January 1991</u>	<u>June 1994</u>	<u>December 1999</u>
Executive Office	105	63	88	84
State Comptroller	119	101	103	105
Executive Departments				
Administration and Finance (2)	4,434	3,985	3,412	3,147
Environmental Affairs (3)	3,319	3,019	2,229	2,497
Communities and Development	182	123	108	--
Health and Human Services	38,665	35,441	23,610	23,163
Transportation & Construction	3,146	2,565	1,389	1,268
Library Commissioners	19	14	14	19
Labor and Workforce Development	--	--	--	388
Housing and Community Development	--	--	--	114
Economic Development	--	--	--	88
Consumer Affairs	--	--	--	697
Educational Affairs	--	--	15	--
Department of Education	468	348	195	271
Higher Education	14,654	13,084	13,130	15,179
Public Safety	3,405	2,833	8,827	9,419
Economic Affairs	97	64	99	--
Elder Affairs	60	35	30	35
Consumer Affairs	755	725	614	--
Energy Resources	66	--	--	--
Labor	464	443	390	--
Subtotal under Governor's authority	69,958	62,844	54,255	56,472
Judiciary	6,157	5,856	5,861	7,753
Other (4)	4,224	3,494	3,693	7,125
Total	<u>80,339</u>	<u>72,194</u>	<u>63,809</u>	<u>71,350</u>

SOURCE: Executive Office for Administration and Finance.

- (1) The budget-funded standard workforce excludes employees whose positions are established in accounts funded by capital projects funds, direct federal grants, expendable trusts and other non-appropriated funds, as well as seasonal help, members of boards and commissions, and staff of independent authorities. Numbers represent full-time-equivalent filled positions (FTEs), not individual employees as of December 25, 1999. Totals may not add due to rounding.
- (2) Administration and Finance includes the Disabled Persons Protection Commission until 1999.
- (3) Environmental Affairs includes the Low-Level Radioactive Waste Management Board.
- (4) Other includes staff of the Legislature and Executive Council, the offices of the State Treasurer, Secretary, Auditor, and Attorney General, the eleven District Attorneys, and other agencies independent of the Governor; it excludes elected members of the Legislature and Executive Council; starting in 1998, it also includes the offices of several former county sheriffs which have become state agencies.

In addition to the standard workforce funded by annual operating budget appropriations, as of December 25, 1999, the Commonwealth had approximately 13,331 FTEs whose positions are established in accounts funded from capital projects funds, various direct federal grants, expendable trusts and other non-appropriated funds. Virtually all of these employees work in the executive branch, over half of them in public higher education. The Commonwealth also employs seasonal workers, primarily in its parks and other recreational facilities, varying in number from about 500 FTEs in the off-seasons to over 2,000 FTEs in mid-summer.

Union Organization and Labor Negotiations

Under Chapter 150E of the General Laws, all employees of the Commonwealth, with the exception of managerial and confidential employees, have the right to bargain collectively with the Commonwealth through certified employee organizations recognized as exclusive bargaining representatives for appropriate bargaining units. Collective bargaining with employees of the Commonwealth's colleges and universities, its judicial branch and the Lottery Commission generally is conducted directly by those entities. The Human Resources Division of the Executive Office for Administration and Finance conducts the collective bargaining negotiations with all other employees of the Commonwealth. Such negotiations may cover wages, hours and other terms and conditions of employment, but may not include the levels of pension and group insurance benefits. All labor agreements negotiated by the Human Resources Division are subject to approval by the Secretary of Administration and Finance and, once approved, are forwarded to the Legislature for funding approval. Funding of labor contracts is by means of supplemental appropriation.

In most cases, the Trial Court, Lottery Commission and public higher education management negotiate directly with their respective employee representatives, but all wage increases and other economic provisions contained in agreements negotiated by higher education management and the Lottery Commission are subject to the review of the Governor and to funding approval by the Legislature. This also applies to collective bargaining involving employees of the Commonwealth's county governments. If the Governor does not recommend the requested appropriation to fund contractual increases, he may refer the contracts back to the parties for further negotiation.

Approximately 42,135 executive branch full-time-equivalent state employees are organized in twelve bargaining units, the employees of the Commonwealth's colleges and universities are organized in 30 bargaining units, and the employees of the judicial branch and the Lottery Commission are organized in six bargaining units. Public employees of the Commonwealth do not have a legal right to strike or otherwise withhold services.

In December, 1999, the Commonwealth reached an agreement with the Massachusetts Organization of State Engineers and Scientists (MOSES) for a three year contract which commenced on January 1, 2000 and ends on December 31, 2002. The agreement provides for increases in health and welfare contributions and reimbursement for employee meals. The agreement also provides for salary increases of 3% effective January 2, 2000, 3% effective January 7, 2001 and 2.5% effective January 6, 2002. The contract also contains an additional step increase of 2%. The total estimated cost of the agreement is \$22.5 million.

In November, 1999, the Commonwealth reached agreement with the Alliance, Unit 2, (the American Federation of State, County and Municipal Employees and the Service Employees International Union) representing employees in Unit 2 for a three-year contract commencing January 1, 2000 and ending December 31, 2002. The agreement calls for salary increases of 2% effective January 2, 2000, 2% effective July 2, 2000, 3% effective January 7, 2001, 2.5% effective July 1, 2001 and 0.5% effective July 7, 2002. The agreement also provides for increases in shift differentials and mileage reimbursements as well as a 1% bonus effective January 2, 2000. In addition, the agreement provides for 2% step effective January 7, 2001. The total estimated cost of the agreement is \$109.7 million.

In October, 1999, the Commonwealth reached an agreement with the National Association of Government Employees representing Units 1, 3 and 6 for a three-year contract beginning July 1, 2000 and terminating June 30, 2003. The agreements provide for salary increases of 3% effective January 7, 2001, 3% effective July 1, 2001, and 3% effective July 7, 2002. The agreements also call for an increase in health and welfare contributions effective July 1, 2002 and two 2% steps effective January 6, 2002 and January 5, 2003. The total estimated cost of the agreements is \$95.4 million.

In December, 1999, the Commonwealth reached an agreement with the State Police Association of Massachusetts, representing Unit 5A, for a three-year contract beginning January 1, 2000 and terminating December 31, 2002. The agreement called for salary increases of 2% effective January 2, 2000, 2% effective January 7, 2001, and 2% effective January 6, 2002. Employees are also eligible for a 1% increase for completion of the Department's Physical Fitness Program; a 1% increase for completion of the Department's Firearms Qualification Program; and a 1% increase for completion of the Department's Cruiser Safety Program during each year of the contract. The total estimated cost of this agreement is \$50.0 million.

On July 23, 1998, the Commonwealth signed an agreement with the Massachusetts Nurses Association, representing employees in Bargaining Unit 7, for a three-year period beginning July 1, 1997 and terminating June 30, 2000. The agreement provided for salary increases of 3% effective July 6, 1997, 3% effective July 5, 1998, and 3% effective July 4, 1999. Also included were two one-time bonus payments, of 3.5% effective July 6, 1997 and 3% effective July 5, 1998. The agreement's estimated cost is \$27.8 million through fiscal 2000.

In October, 1998, the Commonwealth reached an agreement with the Massachusetts Correction Officers Federated Union, representing Unit 4, for a three-year contract beginning January 1, 1998, and terminating December 31, 2000. The agreement provides for salary increases of 3.5% effective January 4, 1998, 3.5% effective January 2, 1999 and 3% effective January 2, 2000. Also, a new step worth 2.5% was added to the salary schedule effective July 5, 1998, and another new step, also worth 2.5%, was added effective July 4, 1999. Additionally, increases were made in health and welfare contributions and Transitional Career Award (longevity) pay. The total estimated cost of the agreement is \$77.2 million through fiscal 2001.

In January, 1999, the Commonwealth reached an agreement with the Coalition of Public Safety ("COPS") for a three-year contract beginning July 1, 1998 and terminating June 30, 2001. The agreement provides for salary increases of 3% effective July 5, 1998, 3% effective July 4, 1999 and 3% effective July 3, 2000. The agreement also includes the establishment of a new Step 6 (2%) effective June 30, 2000 and a new Step 7 (2%) effective June 30, 2001. Fringe benefit increases are provided for health and welfare benefits and educational incentive pay. The total estimated cost of the agreement is \$7.5 million through fiscal 2001.

In February, 1999, the Commonwealth signed an Agreement with the Alliance for a two-year contract commencing July 1, 1999 and ending June 30, 2001, covering employees in Units 8 and 10. The agreement provides for a total of 7% in across the board wage increases, with a 2% increase effective July 4, 1999; a 2% increase effective January 2, 2000; and a 3% increase effective January 7, 2001. Additionally, increases were made to employee dental and vision plans and for employee career ladder training. The total estimated cost of the agreement is \$29.4 million through fiscal 2001.

The following table sets forth information regarding the eleven bargaining units that are within the responsibility of the Human Resources Division.

Human Resources Division Bargaining Units(1)(2)

Contract Unit	Bargaining Union	Type of Employee	FTEs	Expiration Dates
1	National Association of Government Employees	Clerical	4,630	6/30/01
2	Alliance/American Federation of State, County & Municipal Employees and Service Employees International Union	Institutional services	10,283	12/31/02
3	National Association of Government Employees	Skilled trades	790	6/30/01
4	Massachusetts Correction Officers Federated Union	Corrections	4,137	12/31/00
5	Coalition of Public Safety	Law enforcement	345	6/30/01
5A	State Police Association of Massachusetts	State Police	1,757	12/31/02
6	National Association of Government Employees	Administrative professionals	7,178	6/30/01
7	Massachusetts Nurses Association	Health professionals	1,937	6/30/00
8	Alliance/Service Employees International Union	Social workers	7,416	6/30/00
9	Massachusetts Organization of Engineers and Scientists	Engineers/scientists	2,857	12/31/02
10	Alliance/Service Employees International Union	Secondary education	596	6/30/01
	Corrections Captains(3)	Corrections	<u>70</u>	
TOTAL			<u>41,996</u>	

SOURCE: Executive Office for Administration and Finance.

- (1) Totals may not add due to rounding.
- (2) Numbers represent full-time equivalent filled positions (FTEs) in the standard workforce as of December 25, 1999, whose positions are established in accounts funded by all sources (the annual operating budget, capital projects funds, direct federal grants, and expendable trusts and other non-appropriated funds).
- (3) Unit designation yet to be determined.

COMMONWEALTH CAPITAL SPENDING

The Commonwealth finances capital expenditures from a variety of sources, including general obligation bonds and special obligation (gas tax and convention center) bonds issued by the state and federal reimbursements. As a result of the Central Artery/Ted Williams Tunnel Project, certain additional funding sources have been developed, including specified contributions from independent authorities and the issuance of bonds to be repaid from future federal reimbursements. In addition, at the end of the last three fiscal years, the Commonwealth has set aside surplus operating revenues to supplement capital spending. See "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS – Operating Fund Structure; *Year-end Surpluses*" and "FINANCIAL RESULTS – Selected Financial Data –Statutory Basis."

Five-Year Capital Spending Plan

Since fiscal 1992 the Executive Office for Administration and Finance has maintained a five-year capital spending plan, including an annual administrative limit on the amount of capital spending to be financed by bonds issued by the state. In fiscal 1992 the annual limit was set at approximately \$825 million. During fiscal 1995 the limit was raised to approximately \$900 million and during fiscal 1998 to approximately \$1.0 billion. Actual bond-financed capital expenditures during fiscal years 1995, 1996, 1997, 1998 and 1999 were approximately million, \$902 million, \$908 million, \$955 billion, \$1.0 billion and \$1.0 billion, respectively. The fiscal 1999 figure does not include approximately \$26 million of bond-funded expenditures not counted against the annual limit because of their relationship to a debt defeasance transaction. See "COMMONWEALTH BOND AND NOTE LIABILITIES – Cash Defeasance." The current plan is set forth in the table below and contains current estimates of capital spending of the Commonwealth as well as the estimated sources of funding for such capital spending, including federal aid, for fiscal years 2000 through 2004. Capital spending for fiscal years 2000 through 2004 to be financed from debt issued by the state is forecast at \$5 billion, which includes both general obligation bonds and state gas tax bonds, and which is significantly below legislatively authorized capital spending levels. The five-year capital plan contemplates that the estimated level of Commonwealth capital spending will leverage approximately \$2.301 billion in federal highway funding. See "Federal Highway Funding" below.

The following table sets forth the Commonwealth's current five-year capital plan. The table assumes that all bonds related to a particular year's expenditures will be issued in the same year. In practice, Commonwealth capital expenditures usually occur prior to the issuance of the related bonds. Accordingly, it is customary for some bonds to be issued in a subsequent fiscal year to finance capital expenditures made in the prior fiscal year.

The five-year capital plan governs bond-funded expenditures and does not, therefore, include expenditures from the Capital Investment Trust Fund or the Capital Improvement and Investment Trust Fund (see "FINANCIAL RESULTS – Selected Financial Data – Statutory Basis") or capital expenditures from any potential year-end surplus (see "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS – Operating Fund Structure; *Year-end Surpluses*"). Prior to the enactment in November, 1999 of legislation restructuring the finances of the Massachusetts Bay Transportation Authority, the Commonwealth's five-year capital plan also incorporated the MBTA's capital plan because of the Commonwealth's responsibility for paying debt service on the MBTA's bonds. In recent years the MBTA's capital plan has called for expenditures of approximately \$500 million per year, funded by approximately \$300 million of MBTA bonds and approximately \$200 million of federal transit aid. Effective July 1, 2000 Commonwealth support for the MBTA will be limited to a portion of the state sales tax, although the Commonwealth will remain contingently liable for MBTA bonds issued prior to July 1, 2000. See "COMMONWEALTH PROGRAMS AND SERVICES – Massachusetts Bay Transportation Authority."

**Summary of Five-Year Capital Spending Plan and Plan of Finance
(in millions)(1)**

USES:	2000	2001	2002	2003	2004	Total
Category						
Information Technology	\$ 49	\$ 49	\$ 49	\$ 49	\$ 49	\$ 245
Infrastructure	217	202	202	202	202	1,023
Environment	139	104	104	104	104	555
Wastewater Treatment	3	11	11	8	8	41
Housing	71	72	72	72	71	356
Transportation						
Central Artery/ Tunnel Project	1,635	1,775	951	559	357	5,277
All Other	579	632	596	572	605	2,984
Transportation Subtotal	2,214	2,407	1,547	1,131	962	8,261
Public Safety	14	9	9	9	9	50
Economic Development	42	40	40	132	173	429
Total Uses	\$ 2,749	\$ 2,893	\$ 2,034	\$ 1,706	\$ 1,577	\$ 10,960
SOURCES:						
Category						
Commonwealth Long Term Debt	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 5,000
Commonwealth Notes (2)	0	51	21	0	0	72
Additional Debt Capacity (3)	188	73	35	21	17	334
Third Party-Supported Expenditures	492	104	0	11	18	626
Grant Anticipation Notes	489	304	0	0	0	793
Federal Aid	579	781	599	452	387	2,799
Additional Sources Required(4)	0	580	379	222	155	1,366
Total Sources	\$ 2,749	\$ 2,893	\$ 2,034	\$ 1,706	\$ 1,577	\$ 10,960

SOURCE: Executive Office for Administration and Finance.

- (1) Totals may not add due to rounding
(2) Fiscal 2001 figure includes \$45 million in anticipated pay-as-you-go funding and interest earnings thereon consistent with a supplemental budget filed by the Governor on January 26, 2000.
(3) See "COMMONWEALTH BOND AND NOTE LIABILITIES - Cash Defeasance."
(4) See "Central Artery/Ted Williams Tunnel Project; *Revised cost estimates.*"

Beginning in July, 1998, the responsibility for monitoring the five-year capital plan was transferred from the Executive Office for Administration and Finance to the Fiscal Affairs Division within the Executive Office. The Fiscal Affairs Division regularly reviews its five-year capital spending plan to account for changes in the expected timing and amount of the Commonwealth's capital expenditures. Due to the size and complexity of the Commonwealth's capital program and other factors, the timing and amount of actual capital expenditures and debt issuances over the period will likely vary somewhat from the annual spending amounts contained in the five-year capital spending plan.

Federal Highway Funding

On June 9, 1998, the President approved the Transportation Equity Act for the 21st Century ("TEA-21"), successor legislation to the Intermodal Surface Transportation Efficiency Act of 1991. Technical corrections to TEA-21 were approved by the President on July 22, 1998. TEA-21, as amended, clarifies the amount of federal highway aid the Commonwealth can expect to receive through federal fiscal year 2003. (Federal fiscal years end on September 30.) According to the Federal Highway Administration, Commonwealth apportionments for those years are as follows: \$642.9 million in federal fiscal year 1998, \$497.9 million in federal fiscal year 1999, \$537.2 million in federal fiscal year 2000, \$518.1 million in federal fiscal year 2001, \$529.2 million in federal fiscal year 2002 and \$538.2 million in federal fiscal year 2003. As a result of the annual Congressional appropriations process, it is likely

that the Commonwealth will receive an annual obligation authority ceiling at the outset of each year that is less than 100% of the estimated apportionments during the six-year life of the legislation. ("Obligation authority" is the amount of federal funds that a state can obligate in a given federal fiscal year.) Additional funding may be available at the end of each federal fiscal year through Federal Highway Administration redistributions of unused obligation authority from states unable to use their full amount to those states with the greatest need. For federal fiscal year 1998, the amount of obligation authority that the Commonwealth actually received was approximately \$592.0 million, including redistribution. On November 16, 1998, the Commonwealth received an obligation authority amount of \$434.6 million for federal fiscal year 1999. An additional \$100 million was appropriated in the federal fiscal 1999 Omnibus Appropriations Act for transportation projects in the Commonwealth. Approximately \$71 million of these funds will be available for the Central Artery/Ted Williams Tunnel project, with the remainder being used to fund the statewide road and bridge program.

For financial planning purposes in the project finance plans for the Central Artery/Ted Williams Tunnel project, the Federal Highway Administration allows the Commonwealth to assume obligation authority equal to 100% of the annual apportionment, but no redistribution. Accordingly, with regard to this project, the Commonwealth's five-year capital plan assumes federal highway aid equal to 100% of the TEA-21 apportionments for the 2000 fiscal year and beyond. Funding for the 1999 fiscal year is based on available funding of \$438.9 million from TEA-21 and \$100 million from the Omnibus Appropriations Act, and assumes \$12.4 million in Massachusetts redistribution.

The Federal Highway Administration has provided revised estimates of Commonwealth apportionments for federal fiscal years 2000 to 2003, inclusive, under TEA-21. The revised estimate for fiscal year 2000 takes into account a provision in TEA-21 that establishes a budgetary "firewall" between Federal Highway Trust Fund receipts and other discretionary domestic programs. Under this provision, future program authorizations will be based upon actual changes to Federal Highway Fund receipts. The first year of implementation will be federal fiscal year 2000, when the "revenue aligned budget authority," as it is called in TEA-21, will be \$1.456 billion, based on federal fiscal year 1998 receipts. The current estimates of Commonwealth apportionments for federal fiscal years 2000 to 2003, inclusive, are \$537.2 million (including \$22.6 million in revenue aligned budget authority), \$518.1 million, \$529.2 million and \$538.2 million, respectively.

Central Artery/Ted Williams Tunnel Project

The largest single component of the Commonwealth's capital program currently is the Central Artery/Ted Williams Tunnel project, a major construction project that is part of the completion of the federal interstate highway system. The project involves the depression of a portion of Interstate 93 in downtown Boston (the Central Artery), which is now an elevated highway, and the construction of a new tunnel under Boston harbor (the Ted Williams Tunnel) to link the Boston terminus of the Massachusetts turnpike (Interstate 90) to Logan International Airport and points north. As described below, the magnitude of the Central Artery/Ted Williams Tunnel project has resulted in the realignment of certain transportation assets in the Commonwealth and the development of additional financing mechanisms to support its completion, including payments from the Massachusetts Turnpike Authority and the Massachusetts Port Authority and state borrowings in anticipation of future federal highway reimbursements. The completed project will be owned and operated by the Massachusetts Turnpike Authority as part of the Metropolitan Highway System which was established in conjunction with the project.

Revised cost estimates. On February 1, 2000, the Massachusetts Turnpike Authority revised upward by \$1.398 billion its estimate of the total expenditures expected to be required to complete the project. The Turnpike Authority characterized this revision as preliminary and subject to further review. According to the revised estimates, cash outlays from fiscal 2000 through the completion of the project are estimated to be approximately \$5.388 billion rather than the previous estimate of approximately \$3.990 billion, and total cash outlays for the project are estimated to be approximately \$13.1 billion.

The revised estimates result from an ongoing review of the project by the Turnpike Authority. The Turnpike Authority has engaged outside consultants to undertake an independent assessment of its preliminary findings. The Turnpike Authority expects to finalize its estimate of the cost to complete the project promptly over the next several months. According to the Turnpike Authority, the \$1.398 billion in estimated additional project costs is attributable to a number of factors, including an anticipated \$302 million of change orders related to existing

contracts, \$321 million in increased estimates for contracts yet to be awarded, \$292 million in additional costs required to maintain the project's scheduled milestones and completion date in 2004, \$260 million for additional project management expenses, \$90 million in previously unanticipated expenses related to utility, transportation and other service contracts, \$72 million in additional right-of-way acquisition costs and \$60 million for additional design services. The revised budget estimates for contracts yet to be awarded assume, as did prior estimates, that actual contract bid results will vary favorably by a certain margin from project engineers' cost estimates, based on market conditions at the time of bidding. If such variances are not achieved, actual project costs will be higher. The most recent actual bid result was not consistent with the budget assumptions. With respect to bids received on February 29, 2000 for a major contract, the apparent low bid (approximately \$204 million), though lower than project engineers' cost estimates, was approximately \$22 million higher than the revised budget estimate.

In a letter dated February 2, 2000, the Massachusetts Division Administrator of the Federal Highway Administration requested the Turnpike Authority to submit to him as soon as possible, but not later than March 15, 2000, information that details the additional \$1.398 billion in costs, identifies the planned funding sources and demonstrates continued positive annual cash flow ability for each of the remaining years of the project. The letter noted that the ability of the Federal Highway Administration to continue to grant required approvals relating to federal funding of the project would depend on the submission of such information by such date. In a report issued February 10, 2000, the Office of Inspector General of the U. S. Department of Transportation stated that there was a potential for construction costs related to the project to increase by \$942 million over the cost estimates that had been reported by the Turnpike Authority prior to its February 1, 2000 announcement of the \$1.4 billion upward revision in cost estimates. The report contained recommendations generally consistent with the request for information made on February 2, 2000 by the Federal Highway Administration and also contained additional recommendations, including that the Federal Highway Administration should perform an independent validation of all project status and cost data. On March 3, 2000, the Massachusetts Division Administrator of the Federal Highway Administration sent a follow-up letter to the Turnpike Authority clarifying that a complete, updated finance plan is required to be submitted by March 15, 2000 and that the plan must specify total funding needs and sources and demonstrate positive annual cash flow.

On February 17, 2000 the Secretary of the U. S. Department of Transportation announced that he had approved an action plan provided by the Federal Highway Administrator to enhance federal oversight of the project. The plan includes implementation of all of the recommendations proposed in the Inspector General's report, the withholding of further "advance construction" approvals of the eligibility of project segments for federal highway aid until the Federal Highway Administration has approved a new finance plan reflecting the higher costs and revenue sources for completing the project, an evaluation of whether the Federal Highway Administration should freeze all federal-aid obligation authority until it has determined the soundness of the new finance plan and the establishment of a task force to conduct a complete review of Federal Highway Administration oversight processes. The Secretary also indicated that he intends to use his project approval authority to ensure that the Commonwealth maintain the allocation of federal-aid funds to its statewide road and bridge program in the proportions previously agreed upon with the federal government (71% for the Central Artery/Ted Williams Tunnel project and 29% for other projects through 2002 and a 50/50 split thereafter).

Based on the Turnpike Authority's revised estimate as of February 1, 2000, the project's remaining cost is estimated to total approximately \$5.4 billion through completion, including fiscal year 2000. According to the February 1, 2000 estimates, the project's cash requirements for fiscal 2001 are approximately \$1.775 billion, some \$580 million higher than previously estimated. Based on the February 1, 2000 estimates, the remaining additional \$818 million in increased costs are anticipated to occur as follows: \$379 million in fiscal 2002, \$222 million in fiscal 2003, \$155 million in fiscal 2004 and \$62 million in fiscal 2005.

Proposed plan. On February 18, 2000 the Governor announced a revised project finance plan to raise additional funding of \$1.4 billion for project costs and filed legislation to implement it. Three days earlier, the Secretary of Administration and Finance had announced a preliminary version of the plan. The Governor's plan calls for the use of \$600 million of Turnpike Authority resources as follows: \$200 million in accumulated cash reserves, \$250 million from proceeds of additional Turnpike Authority revenue bonds (with \$150 million principal amount maturing over 40 years and \$100 million principal amount maturing in 41 to 50 years) and approximately \$150 million from restructuring an insurance trust fund related to the project, which would be replaced by a new risk transfer insurance policy. The plan also calls for \$600 million in new Turnpike Authority bonds to be supported by

Commonwealth contract assistance (which would be a general obligation of the Commonwealth for which its credit would be pledged), \$50 million from the Massachusetts Port Authority for acquisition by the Port Authority of an exit ramp that will serve Logan International Airport and \$150 million from federal grant anticipation notes in addition to the \$1.5 billion of such notes previously contemplated. The proceeds of certain Turnpike Authority real estate dispositions and other potential Turnpike Authority revenues anticipated in future years would also be used to reimburse the Commonwealth for its contract assistance payments. Much of the plan will require legislative approval, and the Legislature may revise the plan in whole or in part in the course of its deliberations. The legislation is now being considered by the Legislature's joint Transportation Committee. A special joint legislative committee to study the cost of completion of the project and the statewide transportation program has scheduled a public hearing for March 8, 2000. Certain elements of the plan may also require federal approval, and on February 28, 2000 the Massachusetts Division Administrator of the Federal Highway Administration identified in a letter to the Turnpike Authority concerns that he had about the proposed restructuring of the insurance trust fund and the additional federal grant anticipation notes.

Massachusetts Turnpike Authority payments. Legislation enacted in 1995 transferred the Ted Williams Tunnel to the Turnpike Authority, and legislation enacted in 1997, following a year-long feasibility study overseen by state transportation officials, established two "cost centers" within the Turnpike Authority: a western cost center extending from the Massachusetts/New York border to Route 128 and a new Metropolitan Highway System, including the Massachusetts turnpike from Route 128 eastward, the Central Artery portion of Interstate 93 and the Ted Williams, Sumner and Callahan Tunnels under Boston harbor. Pursuant to the 1997 legislation, oversight of project construction was transferred from the Massachusetts Highway Department to the Turnpike Authority in July of that year. By leveraging its assets in the Metropolitan Highway System, the Turnpike Authority has been able to make substantial capital contributions totaling \$1.255 billion to the cost of the project. Pursuant to the current memorandum of understanding dated February 19, 1999 among the Executive Office of Transportation and Construction, the Executive Office for Administration and Finance and the Turnpike Authority, a final additional payment of \$100 million is to be made by June 30, 2000. As noted above, the Governor's proposed finance plan to raise \$1.4 billion in additional funding for the project calls for additional payments from the Turnpike Authority.

Massachusetts Port Authority payments. Pursuant to a roadway transfer agreement dated March 23, 1999 and effective May 25, 1999 among the Massachusetts Port Authority, the Massachusetts Turnpike Authority and the Massachusetts Highway Department, the Port Authority has agreed to make payments totaling \$300 million for the acquisition of certain roadways related to Logan International Airport. Such payments have been made in the aggregate amount of approximately \$95.1 million; the agreement calls for additional payments of approximately \$104.9 million in fiscal 2003, \$50 million in fiscal 2004 and \$50 million in fiscal 2005. The Commonwealth is authorized to issue general obligation notes in anticipation of future payments from the Port Authority and expects to do so. As noted above, the legislation filed by the Governor on February 18, 2000 calls for additional payments from the Port Authority totaling \$50 million for the acquisition of an exit ramp that will serve Logan International Airport.

Federal grant anticipation notes. Legislation enacted in 1997 and 1998 authorizes the Commonwealth to issue \$1.5 billion of grant anticipation notes in anticipation of future federal highway reimbursements. To date, the Commonwealth has issued approximately \$900 million of such notes. As noted above, the legislation filed by the Governor on February 18, 2000 would authorize the issuance of an aggregate total of \$1.65 billion of grant anticipation notes. See "COMMONWEALTH BOND AND NOTE LIABILITIES – Federal Grant Anticipation Notes."

Project cash flow. In determining the appropriate levels of financing contained in the Commonwealth's overall five-year capital spending plan, the Executive Office for Administration and Finance has considered the cash flow needs required to fund the Central Artery/Ted Williams Tunnel project through completion. The table below provides cash flow estimates that are consistent with the revised project cost estimates and extend to fiscal 2005, when the project is expected to be completed. Given the uncertainties inherent in day-to-day management of contract bids and change orders, the timing of the project's cash flow needs cannot be determined with precision. The numbers in the table have been adjusted to reflect revisions in the estimates of federal funding and the additional funding needs of the project as described above, although the funding sources for such additional needs have not yet been identified in the table. The table does not reflect the \$22 million adverse variance from budget estimates reflected in the February 29, 2000 bid results noted above. The table assumes enactment by early March of

certain provisions in the transportation bond bill currently pending in the Legislature. See "Proposed Capital Spending Authorizations."

The first table below presents the estimated sources and uses of funds for the Central Artery/Ted Williams Tunnel project from fiscal 2000 to fiscal 2005. The second table isolates the use of interim debt. The top half of the second table shows the expected draw-down schedule for note proceeds; the bottom half of the table shows the expected repayment schedule for such notes.

**Central Artery Construction Cash Flow
(in thousands)(1)**

Project Construction Uses:	2000	2001	2002	2003	2004	2005	Totals
	<u>\$ 1,634,890</u>	<u>\$ 1,775,137</u>	<u>\$ 950,693</u>	<u>\$ 558,783</u>	<u>\$ 357,085</u>	<u>\$ 111,492</u>	<u>\$ 5,388,083</u>
Project Construction Sources:							
Federal highway reimbursements(2)	428,200	535,137	401,188	264,927	158,135	26,234	1,813,821
Commonwealth GO Bonds/Notes(3)	225,000	251,328	170,505	61,199	25,887	23,258	757,177
Third Party Contributions and BANS	492,245	104,892	0	10,657	18,063	0	625,858
GANS	489,444	303,780	0	0	0	0	793,224
Additional sources required (4)	<u>0</u>	<u>580,000</u>	<u>379,000</u>	<u>222,000</u>	<u>155,000</u>	<u>62,000</u>	<u>1,398,000</u>
Total Sources	<u>\$ 1,634,890</u>	<u>\$ 1,775,137</u>	<u>\$ 950,693</u>	<u>\$ 558,783</u>	<u>\$ 357,085</u>	<u>\$ 111,492</u>	<u>\$ 5,388,083</u>

SOURCE: Executive Office for Administration and Finance and Massachusetts Turnpike Authority.

- (1) Totals may not add due to rounding.
(2) Assumes TEA-21 apportionment.
(3) Fiscal 2001 figure includes \$45 million in anticipated pay-as-you-go funding and interest earnings thereon.
(4) See "Central Artery/Ted Williams Tunnel Project; *Proposed plan*."

**Interim Debt Schedule
(in thousands)(1) (2)**

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	TOTAL
Issuance (3)													
Federal Grant Anticipation Notes	\$295,124	\$411,653	\$489,444	\$303,780	0	0	0	0	0	0	0	0	\$1,500,000
Notes in anticipation of third-party payments	0	0	162,974	13,192	0	0	0	0	0	0	0	0	176,166
Bond anticipation notes	0	0	0	6,329	\$ 20,505	0	0	0	0	0	0	0	26,833
Total proceeds	<u>\$295,125</u>	<u>\$411,653</u>	<u>\$652,418</u>	<u>\$323,301</u>	<u>\$ 20,505</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$1,703,000</u>
Interim Debt Retirement													
Federal reimbursements	0	0	0	0	0	0	\$183,777	\$269,090	\$269,090	\$269,090	\$269,090	\$239,863	\$1,500,000
Third party payments	0	0	0	0	0	\$ 94,229	31,938	50,000	0	0	0	0	176,166
General obligation bonds	0	0	0	0	0	801	18,113	7,919	0	0	0	0	26,833
Total Retirement	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 95,030</u>	<u>\$233,828</u>	<u>\$327,009</u>	<u>\$269,090</u>	<u>\$269,090</u>	<u>\$269,090</u>	<u>\$239,863</u>	<u>\$1,703,000</u>

SOURCE: Executive Office for Administration and Finance

- (1) Totals may not add due to rounding.
(2) Does not reflect proposed plan reflected in legislation filed by the Governor on February 18, 2000. See "Central Artery/Ted Williams Tunnel Project; *Proposed plan*."
(3) Dates reflect drawdown schedule of proceeds.

Historical Capital Spending

The Commonwealth has expended significant sums on an annual basis to undertake capital projects in the state. Expenditures on capital projects have increased from approximately \$2.3 billion in fiscal year 1995 to approximately \$2.7 billion in fiscal year 1999. Transportation related spending constitutes the bulk of the Commonwealth's capital expenditures, accounting for 80% percent of all expenditures over the last five years. The Central Artery/Ted Williams Tunnel project has become the single largest part of the Commonwealth's capital spending, totaling some \$5.6 billion over the last five years, increasing from \$878 million in fiscal year 1995 to \$1.515 billion in fiscal year 1999. The table below sets forth the sources of funds for capital spending in the Commonwealth from fiscal 1995 to fiscal 1999. The table is organized to present the spending in a format consistent with the administration's overall capital plan. The table excludes payments of refunding bond proceeds paid to refunding escrow agents. Interfund transfers within the capital projects funds have also been eliminated. During fiscal 1996 and 1997, activity in the Capital Expenditure Reserve Fund was reported as a special revenue fund. In fiscal year 1998, the fund was reclassified to a capital project fund. Activity in this fund is included in this table for all fiscal years.

The table below assumes that all bonds related to a particular year's expenditures were issued in the same year. In practice, Commonwealth capital expenditures usually occur prior to the issuance of the related bonds. Accordingly, it is customary for some bonds to be issued in a subsequent fiscal year to finance capital expenditures made in the prior fiscal year. Because of recently enacted legislation restructuring the finances of the Massachusetts Bay Transportation Authority, the table does not include expenditures or debt of the MBTA. See "COMMONWEALTH PROGRAMS AND SERVICES – Massachusetts Bay Transportation Authority."

Commonwealth Capital Expenditures (in millions)(1)

USES:	1995	1996	1997	1998	1999	Total
Information technology	\$ 21	\$ 17	\$ 56	\$ 86	\$ 111	\$ 291
Transportation (2)	1,464	1,438	1,675	1,969	2,029	8,575
Environment	116	118	104	141	132	612
Wastewater treatment	22	20	25	9	7	83
Housing	47	66	62	80	82	337
Public Safety	34	23	21	16	12	106
Infrastructure	98	137	222	237	224	917
Economic development	48	24	64	110	91	337
Total Uses	<u>\$ 1,851</u>	<u>\$ 1,842</u>	<u>\$ 2,230</u>	<u>\$ 2,648</u>	<u>\$2,687</u>	<u>\$11,259</u>
SOURCES:						
Commonwealth Long Term Debt(3)(4)	\$ 902	\$ 908	\$ 1,055	\$ 1,000	\$ 1,000	\$4,865
Grant Anticipation Notes	--	--	--	295	412	707
Additional Debt Capacity(5)	--	--	--	--	26	26
Operating Revenues	--	--	80	159	252	491
Third-Party Payments	--	43	60	405	412	920
Federal Reimbursements	949	890	1,036	788	586	4,250
Total Sources	<u>\$1,851</u>	<u>\$1,842</u>	<u>\$2,230</u>	<u>\$2,648</u>	<u>\$2,687</u>	<u>\$11,259</u>

(1) Totals may not add due to rounding.

(2) Includes Central Artery/Ted Williams Tunnel project spending of \$878 million, \$802 million, \$971 million, \$1.428 billion and \$1.515 billion in fiscal years 1995 through 1999, respectively.

(3) Fiscal 1997 includes \$100 million in spending that was anticipated to be funded by payments from the Turnpike Authority; such payment was received June 28, 1998.

(4) Fiscal 1998 includes \$19 million for the Worcester Convention Center.

(5) See "COMMONWEALTH BOND AND NOTE LIABILITIES - Cash Defeasance."

Source: Office of the Comptroller. Breakdown of Central Artery/Ted Williams Tunnel project spending: Central Artery/Tunnel Project.

Proposed Capital Spending Authorizations

On February 12, 1999, Governor Cellucci filed legislation authorizing \$75 million of Commonwealth general obligation bonds for grants to cities and towns to finance the renovation of public libraries. The bill is currently pending before the House Long-Term Debt and Capital Expenditures Committee.

On February 17, 1999, the Governor filed a comprehensive transportation bond bill. The Governor's bill would have authorized approximately \$4.491 billion of transportation-related capital spending to occur over several years, including approximately \$1.623 billion to be funded by federal reimbursements, approximately \$1.806 billion to be funded by Commonwealth general obligation bonds and approximately \$1.062 billion to be funded by MBTA bonds. The bill would also have authorized an additional \$600 million in spending to be funded by federal grant anticipation notes. See "COMMONWEALTH BOND AND NOTE LIABILITIES – Federal Grant Anticipation Notes." A portion of the transportation bond bill was released by the Legislature's Transportation Committee on July 26, 1999. After further amendments by the House and Senate, the truncated bill was enacted by the Legislature on August 5, 1999 and approved by the Governor, with certain vetoes, on August 12, 1999. The approved legislation authorized an additional \$450 million in spending to be funded by federal grant anticipation notes. As enacted by the Legislature, the legislation also authorized \$150 million for local road and bridge projects, to be funded by Commonwealth general obligation bonds. The Governor reduced the latter authorization to \$100 million, but on September 29, 1999 the Legislature overrode the reduction. On October 22, 1999 the Transportation Committee released in amended form the remainder of the bill filed by the Governor, and on November 10, 1999 the House approved the bill with further amendments. As approved by the House, the bill would provide for approximately \$3.230 billion of capital spending, to be funded by approximately \$1.606 billion of Commonwealth general obligation bonds and approximately \$1.623 billion of federal highway grants. The House bill included an additional \$150 million spending authorization associated with the federal grant anticipation notes. On February 17, 2000 the Senate approved its own bill, which would provide for approximately \$1.847 billion of capital spending, to be funded by approximately \$1.321 billion of Commonwealth general obligation bonds and approximately \$526.4 million of federal highway grants. The Senate bill does not include additional spending authorizations related to federal grant anticipation notes. Most of the difference in spending authorizations between the House and Senate bills relates to proposed spending for the Central Artery/Ted Williams Tunnel project, for which the Senate bill would appropriate only \$200 million. The Senate bill would also require the Governor to submit to the Legislature by March 15, 2000 a comprehensive finance plan for the Central Artery/Ted Williams Tunnel project that includes \$400 million in annual spending for other road and bridge projects throughout the state and would prohibit any toll increases on the Massachusetts Turnpike, the Metropolitan Highway System or the Tobin Bridge until the Governor had submitted his plan. Based on the level of spending contained in the Senate bill, the project may face delays and additional costs by mid-April, 2000. On March 2, 2000 the House amended the Senate bill by substituting the language of the transportation bond bill it had approved on November 10, 1999. The differences between the House and Senate bills are expected to be reconciled in a legislative conference committee.

On March 8, 1999, the Governor filed legislation which would authorize \$126 million of Commonwealth general obligation bonds for the purpose of preserving and maintaining certain real property assets of the Commonwealth. On June 23, 1999, the bill was reported favorably by the Long-Term Debt Committee and is now being considered by the House Committee on Ways and Means.

On May 24, 1999, the Governor filed an environmental bond bill. This bill would authorize \$247 million in general obligation bonds, including \$124 million for maintenance and repairs of state forests and parks, recreational facilities, dams and other environmental assets, \$45 million for acquisition and improvement of watershed areas, \$16 million for environmental remediation at the Metropolitan District Commission, \$32 million for agricultural preservation and \$30 million for eminent domain payments. On February 15, 2000, the House Committee on Long-Term Debt and Capital Expenditures released its version of the bill, which would authorize \$116.8 million in general obligation bonds, including \$30 million for eminent domain takings and associated costs. The remaining items in the bill were reduced to reflect two years of authorization instead of the five years proposed by the Governor. The bill would also deauthorize a like amount of bonds related to environmental purposes.

On July 19, 1999 Governor Cellucci re-filed legislation that had been filed by Governor Weld in June, 1997 that would authorize \$10 million of Commonwealth general obligation bonds to finance design costs related to planned renovations to the Saltonstall State Office Building, a 30-year-old, 775,669-square foot building located in downtown Boston. Under the legislation, the renovations themselves would be financed by the issuance by the

Massachusetts Development Finance Agency of up to \$100 million of lease revenue bonds; the Commonwealth would convey the building to the Agency and lease it back under a financing structure similar to that used for the Massachusetts Information Technology Center. See "COMMONWEALTH BOND AND NOTE LIABILITIES – Indirect Obligations; *City of Chelsea Commonwealth Lease Revenue Bonds*." Pursuant to legislation approved by the Governor on September 2, 1999, the Commonwealth is currently considering proposals from developers to renovate the Saltonstall Building. Based on these proposals, the Secretary of Administration and Finance will recommend a renovation plan and authorizing legislation to the Legislature. Office workers are currently being relocated in anticipation of legislative authorization to perform the renovation.

On February 18, 2000 the Governor filed legislation to implement his proposed finance plan to raise approximately \$1.4 billion in additional funding for the Central Artery/Ted Williams Tunnel project. See "Central Artery/Ted Williams Tunnel Project."

It is the plan of the Executive Office for Administration and Finance to approve expenditures from all pertinent general obligation bond authorizations in a manner consistent with the five-year capital spending plan.

COMMONWEALTH BOND AND NOTE LIABILITIES

Overview

Under its constitution, the Commonwealth may borrow money (a) for defense or in anticipation of receipts from taxes or other sources, any such loan to be paid out of the revenue of the year in which the loan is made, or (b) by a two-thirds vote of the members of each house of the Legislature present and voting thereon. The constitution further provides that borrowed money shall not be expended for any other purpose than that for which it was borrowed or for the reduction or discharge of the principal of the loan. In addition, the Commonwealth may give, loan or pledge its credit by a two-thirds vote of the members of each house of the Legislature present and voting thereon, but such credit may not in any manner be given or loaned to or in aid of any individual, or of any private association, or of any corporation which is privately owned or managed.

The Commonwealth has waived its sovereign immunity and consented to be sued on contractual obligations, which term includes bonds and notes issued by it and all claims with respect thereto. However, the property of the Commonwealth is not subject to attachment or levy to pay a judgment, and the satisfaction of any judgment generally requires legislative appropriation. Enforcement of a claim for payment of principal of or interest on bonds and notes of the Commonwealth may also be subject to the provisions of federal or Commonwealth statutes, if any, hereafter enacted extending the time for payment or imposing other constraints upon enforcement, insofar as the same may be constitutionally applied. The United States Bankruptcy Code is not applicable to states.

Commonwealth Bonds and Notes. The Commonwealth is authorized to issue three types of debt: general obligation debt, special obligation debt and federal grant anticipation notes. General obligation debt is secured by a pledge of the full faith and credit of the Commonwealth. Special obligation debt may be secured either with a pledge of receipts credited to the Highway Fund or with a pledge of receipts credited to the Boston Convention and Exhibition Center Fund. See "Special Obligation Debt." Federal grant anticipation notes are secured by a pledge of federal highway construction reimbursements. See "Federal Grant Anticipation Notes."

Other Commonwealth Bond and Note Liabilities. Certain independent authorities and agencies within the Commonwealth are statutorily authorized to issue bonds and notes for which the Commonwealth is either directly, in whole or in part, or indirectly liable. The Commonwealth's liabilities with respect to these bonds and notes are classified as either (a) Commonwealth-supported debt, (b) Commonwealth-guaranteed debt or (c) indirect obligations. Commonwealth-supported debt arises from statutory requirements for payments by the Commonwealth with respect to debt service of the Massachusetts Bay Transportation Authority (including the Boston Metropolitan District), the Steamship Authority and certain regional transit authorities, the Massachusetts Convention Center Authority, the Massachusetts Development Finance Agency (as successor to the Massachusetts Government Land Bank), the Massachusetts Water Pollution Abatement Trust and the Foxborough Industrial Development Financing Authority. Because of recent legislation restructuring the finances of the Massachusetts Bay Transportation Authority, the Commonwealth will, beginning in fiscal 2001, no longer make direct debt service payments on the MBTA's bonds, but the Commonwealth will remain obligated to pay such debt service if the MBTA cannot. See "COMMONWEALTH PROGRAMS AND SERVICES – Massachusetts Bay Transportation Authority." Commonwealth-guaranteed debt consists of certain liabilities arising out of the Commonwealth's guaranties of the bonds of the University of Massachusetts Building Authority and the Massachusetts State College Building Authority. Indirect obligations consist of (i) obligations of the Commonwealth to fund capital reserve funds pledged to certain Massachusetts Housing Finance Agency bonds, (ii) the obligation of the Commonwealth, acting through the Board of Higher Education, to fund debt service, solely from moneys otherwise appropriated for the community colleges, on certain community college program bonds issued by the Massachusetts Health and Educational Facilities Authority, (iii) the obligation of the Commonwealth, acting through the Board of Higher Education, to fund debt service, solely from moneys otherwise appropriated for the state colleges, on certain bonds issued by the Massachusetts State College Building Authority, (iv) the obligation of the Commonwealth, acting through the Executive Office of Public Safety, to fund debt service from amounts appropriated by the Legislature to the Executive Office of Public Safety, on certificates of participation issued to finance the Plymouth County Correctional Facility, (v) the obligation of the Commonwealth to make lease payments from amounts appropriated by the Legislature with respect to the Massachusetts Information Technology Center in the city of Chelsea and (vi) the anticipated obligation of the Commonwealth to make lease payments related to the planned reconstruction of state highway Route 3 North. See "Indirect Obligations." The Commonwealth is also obligated to reimburse the

Massachusetts Turnpike Authority for certain operating and maintenance costs related to roadways acquired by the Turnpike Authority from the Commonwealth. In addition, the Commonwealth has liabilities under certain tax-exempt capital leases. See "OTHER COMMONWEALTH OBLIGATIONS – Long-Term Capital Leases."

Outstanding Bond and Note Liabilities. The following table sets forth the Commonwealth bond and note liabilities outstanding as of January 1, 2000.

Commonwealth Bond and Note Liabilities January 1, 2000 (in thousands)		
	<u>Long-Term</u>	<u>Short-Term</u>
COMMONWEALTH DEBT		
General Obligation Debt	\$ 9,898,527(1)	\$ 175,000 (4)
Special Obligation Debt	585,730	0
Federal Grant Anticipation Notes	<u>921,720(2)</u>	<u>0</u>
Subtotal Commonwealth Debt	11,405,977	175,000
COMMONWEALTH-SUPPORTED DEBT		
Massachusetts Bay Transportation Authority	3,510,915 (3)	325,000 (5)
Massachusetts Convention Center Authority	72,214	0
Massachusetts Development Finance Agency	80,000	0
Boston Metropolitan District	33,471	0
Steamship Authority	47,075	0
Regional Transit Authorities	<u>0</u>	<u>75,106</u>
Subtotal Supported Debt	3,743,675	400,106
COMMONWEALTH-GUARANTEED DEBT		
Higher Education Building Authorities	<u>214,891</u>	<u>0</u>
Subtotal Guaranteed Debt	214,891	0
TOTAL COMMONWEALTH BOND AND NOTE LIABILITIES	<u>\$ 15,364,543</u>	<u>\$ 575,106</u>

SOURCE: Office of the State Treasurer, Office of the Comptroller and respective authorities and agencies.

- (1) Long-term debt includes discount and costs of issuance. Does not include long-term capital lease obligations. See "Indirect Obligations; *Plymouth County Certificates of Participation*" and "OTHER COMMONWEALTH LIABILITIES – Long-Term Capital Leases." Includes interest on Commonwealth general obligation capital appreciation bonds to be accrued from January 1, 2000 through their maturity in the amount of \$252.5 million.
- (2) Includes capital appreciation interest on Federal Highway Grant Anticipation Notes accrued from January 1, 2000 through their maturity in the amount of \$46.7 million.
- (3) Includes bonds and refunding bonds, excluding such bonds that have been refunded. Does not include certificates of participation and other long-term lease obligations. Because of recent legislation restructuring the finances of the Massachusetts Bay Transportation Authority, the Commonwealth will, beginning in fiscal 2001, no longer make direct debt service payments on the MBTA's bonds, but the Commonwealth will remain obligated to pay such debt service if the MBTA cannot. See "COMMONWEALTH PROGRAMS AND SERVICES – Massachusetts Bay Transportation Authority."
- (4) Commercial paper issued in December, 1999 as bond anticipation notes; retired from the proceeds of general obligation bonds issued on February 24, 2000.
- (5) Includes \$165 million of notes due February 25, 2000, which were retired by the Commonwealth from the proceeds of general obligation bonds issued on February 24, 2000 and \$160 million of notes due September 1, 2000, which are expected to be retired by the Commonwealth from the proceeds of general obligation bonds. In addition, as of February 1, 2000, the MBTA had outstanding \$66 million of commercial paper issued as bond anticipation notes, which is expected to be retired by the MBTA from the proceeds of bonds to be issued during fiscal 2000. See "COMMONWEALTH PROGRAMS AND SERVICES – Massachusetts Bay Transportation Authority."

Long-Term Bond Liabilities (1)(2)
Commonwealth Debt and Commonwealth -Supported Debt
(in thousands)

June 30	General Obligation Bonds (3)	Dedicated Income Tax Debt	Special Obligation Debt	Federal Grant Anticipation Notes	Commonwealth Long-Term Debt Subtotal (4)	MBTA Bonds	Other Supported Debt (5)	Total (4)
1995	\$8,614,766	\$618,980	\$394,720	--	\$9,628,466	\$2,399,780	\$273,410	\$12,301,656
1996	9,147,353	382,965	535,260	--	10,065,578	2,283,330	256,916	12,605,824
1997	9,620,633	129,900	520,760	--	10,271,293	3,043,815	223,882	13,538,990
1998	9,872,598	--	606,005	\$ 600,000	11,078,603	3,210,730	275,019	14,564,352
1999	10,301,011	--	585,730	921,720	11,808,461	3,310,915	232,760	15,352,136

SOURCE: Office of the State Treasurer and Office of the Comptroller.

- (1) Does not include Commonwealth-guaranteed debt. See "Commonwealth-Guaranteed Debt."
- (2) Outstanding bond liabilities include discount and costs of issuance.
- (3) Does not include Dedicated Income Tax Debt. Commonwealth general obligation bonds include interest on capital appreciation bonds yet to be accrued from the end of the fiscal year indicated through their maturity in the following approximate amounts; fiscal 1995 - \$331.6 million; fiscal 1996 - \$331.4 million; fiscal 1997 - \$198.6 million; fiscal 1998 - \$305.8 million; fiscal 1999 - \$315.4 million.
- (4) Totals may not add due to rounding.
- (5) Includes bonds of the Massachusetts Convention Center Authority, the Steamship Authority, the Massachusetts Development Finance Agency (as successor to the Massachusetts Government Land Bank) and the Boston Metropolitan District. Does not include bonds of regional transit authorities.

Long-Term Debt Analysis. The following table sets forth outstanding long-term Commonwealth debt and Commonwealth-supported debt as of the end of the fiscal years indicated and the ratio of such indebtedness to certain economic indicators.

Long-Term Debt Analysis (1)(2)
Commonwealth Debt and Commonwealth -Supported Debt
(in thousands)

June 30	Amount (1)(2) (in thousands)	Net of CAB Interest Yet to be Accrued (in thousands)	Per Capita(3)	Ratio to Full Value of Real Estate (4)	Ratio to Personal Income (5)
1995	\$12,301,656	\$11,970,088	\$1,975	3.28%	7.04%
1996	12,605,824	12,284,394	2,018	3.26	6.83
1997	13,538,990	13,340,390	2,180	3.54	6.99
1998	14,564,352	14,258,569	2,331	3.78	7.05
1999	15,552,136	15,252,931	2,470	3.74	7.27

SOURCE: Office of the State Treasurer and Office of the Comptroller and the Executive Office for Administration and Finance.

- (1) Includes Commonwealth general obligation bonds, dedicated income tax bonds, Special Obligation Bonds, and Federal Grant Anticipation Notes and bonds of the Massachusetts Bay Transportation Authority, the Massachusetts Convention Center Authority, the Steamship Authority, the Massachusetts Development Finance Agency (as successor to the Massachusetts Government Land Bank) and the Boston Metropolitan District. Does not include bonds of the regional transit authorities. Does not include Commonwealth-guaranteed debt. See "Commonwealth-Guaranteed Debt."
- (2) Outstanding bond liabilities include discount and costs of issuance. Commonwealth general obligation bonds include interest on capital appreciation bonds yet to be accrued from the end of the fiscal year through their maturity. See table of "Long-Term Bond Liabilities; footnote 3" above.
- (3) Based on United States Bureau of Census resident population estimates for Massachusetts of 6,060,566 for 1995, 6,085,395 for 1996, 6,117,520 for 1997 and 1998 and 6,175,169 for 1999.
- (4) Based on Commonwealth Department of Revenue equalized valuation of assessed real estate of \$365.2 billion for 1995, \$377.2 billion for 1996 and 1997, and \$408.2 billion for 1998 and 1999.
- (5) Based on United States Department of Commerce, Bureau of Economic Analysis total personal income of \$170.1 billion for 1995, \$179.9 billion for 1996, \$190.9 billion for 1997 and \$209.8 billion for 1998.

Maturities of Short-Term Debt. The following table sets forth the maturities of the Commonwealth's short-term liabilities outstanding as of January 1, 2000.

Maturities of Short-Term Liabilities
January 1, 2000
(in thousands)

<u>Year Due</u>	<u>Commonwealth</u>	<u>MBTA</u>	<u>Regional Transit</u> <u>Authorities</u>	<u>Total</u>
Fiscal 2000	\$175,000(1)	\$165,000 (2)	\$ 19,635	\$359,635
Fiscal 2001	--	160,000	55,471	215,471
Total	<u>\$175,000</u>	<u>\$325,000</u>	<u>\$ 75,106</u>	<u>\$575,106</u>

SOURCE: Office of the State Treasurer and respective authorities and agencies.

- (1) Commercial paper with various maturities; retired from the proceeds of Commonwealth general obligation bonds issued on February 24, 2000.
- (2) Retired by the Commonwealth from the proceeds of general obligation bonds issued on February 24, 2000.

General Obligation Debt

The Commonwealth issues general obligation bonds and notes pursuant to Chapter 29 of the General Laws. Pursuant to Chapter 29, general obligation bonds and notes issued thereunder shall be deemed to be general obligations of the Commonwealth to which its full faith and credit are pledged for the payment of principal and interest when due, unless specifically provided otherwise on the face of such bond or note.

Notes. The Commonwealth is authorized to issue short-term general obligation debt as revenue anticipation notes or bond anticipation notes. Revenue anticipation notes may be issued by the State Treasurer in any fiscal year in anticipation of the receipts for that year. Revenue anticipation notes must be repaid no later than the close of the fiscal year in which they are issued. Bond anticipation notes may be issued by the State Treasurer in anticipation of the issuance of bonds, including special obligation convention center bonds. See "Special Obligation Debt." The Commonwealth currently has liquidity support for a \$600 million commercial paper program for general obligation notes, through a \$200 million letter of credit which expires on October 31, 2000, a \$200 million credit line available through September 27, 2001 and a \$200 million credit line available through September 27, 2002.

U. Plan. The State Treasurer is authorized by law to sell a portion of the Commonwealth's bonded indebtedness each year in a manner appropriate to the purposes of one or more college savings programs. Pursuant to such authorization, the Commonwealth has outstanding approximately \$82.6 million of bonds (not including accreted interest) in conjunction with the Massachusetts College Savings Program (known as the "U. Plan") administered by the Massachusetts Educational Financing Authority. Under the program, such bonds are issued annually on August 1; the Commonwealth issued approximately \$26.1 million of such bonds in 1995, approximately \$19.0 million in 1996, approximately \$19.9 million in 1997, approximately \$17.7 million in 1998 and approximately \$12.9 million in 1999. To facilitate the goals of the program, such bonds bear deferred interest at a variable rate equal to the percentage change in the Consumer Price Index plus 2%, together with current interest at the rate of 0.5%.

Minibonds. The State Treasurer is authorized by law to sell a portion of the Commonwealth's bonded indebtedness each year (not exceeding \$50 million net proceeds per year) in the form of small denomination bonds, or "minibonds," which are redeemable at the option of the holder on any business day prior to maturity (five years or less). The Commonwealth has not issued minibonds since 1990, and all minibonds previously issued have matured.

Special Obligation Debt

Highway Fund. Section 20 of Chapter 29 of the General Laws authorizes the Commonwealth to issue special obligation bonds secured by all or a portion of revenues accounted to the Highway Fund. Revenues which are currently accounted to the Highway Fund are primarily derived from taxes and fees relating to the operation or use of motor vehicles in the Commonwealth, including the motor fuels excise tax. Chapter 33 of the Acts of 1991 authorizes the Commonwealth to issue such special obligation bonds in an aggregate amount not to exceed \$1.125 billion. As of January 1, 2000, the Commonwealth had outstanding \$585.7 million of such special obligation bonds, including \$14.4 million of such bonds secured by a pledge of 2¢ of the 21¢ motor fuels excise tax and three series of bonds, \$144.8 million (issued in June, 1994), \$135.5 million (issued in March, 1996), and \$291.1 million (issued in October, 1997, of which \$187.4 million were refunding bonds) secured by a pledge of an additional 4.86¢ of the motor fuels excise tax and certain other moneys. The bonds issued in October, 1997 advance refunded a portion of the bonds issued in 1992, such that after June 1, 2002, all outstanding special obligation highway bonds will be secured by a pledge of 6.86¢ of such excise tax.

Boston Convention and Exhibition Center Fund. Chapter 152 of the Acts of 1997 authorizes \$676.9 million of special obligation bonds to be issued for the purposes of a new convention center in Boston (\$609.4 million), the Springfield Civic Center (\$48.5 million) and the Worcester convention center (\$19 million). The bonds are to be payable from moneys credited to the Boston Convention and Exhibition Center Fund created by legislation, which include the receipts from a 2.75% convention center financing fee added to the existing hotel tax in Boston, Cambridge, Springfield and Worcester, sales tax receipts from establishments near the proposed Boston facility that first opened on or after July 1, 1997, a surcharge on car rentals in Boston, a parking surcharge at all three facilities, the entire hotel tax collected at hotels located near the new Boston facility and all sales tax and hotel tax receipts at new hotels in Boston and Cambridge first opened on or after July 1, 1997. The legislation requires a capital reserve fund to be maintained at a level equal to maximum annual debt service and provides that if the fund falls below its required balance the 2.75% convention center financing fee in Boston is to be increased (though the overall hotel tax in Boston, including the fee, cannot exceed 14%). To date, no such bonds have been issued.

Federal Grant Anticipation Notes

The Commonwealth is authorized to issue federal grant anticipation notes to finance the current cash flow needs of the Central Artery/Ted Williams Tunnel project in anticipation of future federal reimbursements. The legislation authorizing such notes contains a statutory covenant that as long as any such grant anticipation notes remain outstanding, the Commonwealth will deposit all federal highway reimbursements into the Grant Anticipation Note Trust Fund, to be released to the Commonwealth once all the debt service and reserve funding obligations of the trust agreement securing the grant anticipation notes have been met. If the United States Congress reduces the aggregate amount appropriated nationwide for federal highway spending to less than \$17.1 billion and debt service coverage with respect to the notes falls below 120%, then the legislation further pledges that 10¢ per gallon of existing motor fuel tax collections will be deposited into the trust fund, to be used for debt service on the notes, subject to legislative appropriation. The notes are not general obligations of the Commonwealth. The legislation authorizes the issuance of notes yielding aggregate net proceeds of up to \$1.5 billion, to mature no later than June 30, 2015, although the amount of related spending authorizations are currently capped at \$1.35 billion. An additional \$150 million spending authorization is contained in legislation that has been approved by the House of Representatives but is still pending in the Senate Committee on Ways and Means. See "COMMONWEALTH CAPITAL SPENDING – Proposed Capital Spending Authorizations." The Commonwealth has issued grant anticipation notes with a face amount of \$921,720,000, yielding net proceeds of approximately \$900.0 million and maturing between fiscal 2006 and fiscal 2015, inclusive. Under the trust agreement securing the notes, which will secure the entire \$1.5 billion program, aggregate annual debt service on grant anticipation notes may not exceed \$216 million. Such notes are secured by the pledge of federal highway construction reimbursement payments and by a contingent pledge of certain motor fuels excises. On February 15, 2000 the Secretary of Administration and Finance announced a revised financing plan for the Central Artery/Ted Williams Tunnel project that included the issuance of \$150 million of federal grant anticipation notes in addition to the \$1.5 billion previously contemplated. See "COMMONWEALTH CAPITAL SPENDING – Central Artery/Ted Williams Tunnel Project."

Synthetic Fixed Rate Bonds

In connection with the issuance of certain general obligation bonds that were issued as variable rate bonds, the Commonwealth has entered into interest rate exchange (or "swap") agreements with certain counterparties pursuant to which the counterparties are obligated to pay the Commonwealth an amount equal to the variable rate payment on the related bonds and the Commonwealth is obligated to pay the counterparties a stipulated fixed rate. Only the net difference in interest payments is actually exchanged with the counterparty, and the Commonwealth is responsible for making the interest payments to the variable rate bondholders. The effect of the agreements is to fix the Commonwealth's interest payment obligations with respect to the variable rate bonds. The Commonwealth will be exposed to a variable rate if the counterparties default or if the swap agreements are terminated. Termination of a swap agreement may also result in the Commonwealth's making or receiving a termination payment. The variable rate bonds associated with such swaps are supported by stand-by bond purchase liquidity facilities with commercial banks which require that the applicable bank purchase any bonds that are tendered and not successfully remarketed. Unless and until remarketed, the Commonwealth would be required to pay the bank interest on such bonds at a rate equal to the bank's prime rate. In addition, the Commonwealth would be required to amortize the principal of any such bonds according to an accelerated schedule. Such liquidity facilities expire well before the final maturity date of the related bonds and are expected to be renewed. As of January 1, 2000, the amount of such variable rate bonds outstanding was \$770.8 million.

Debt Service Requirements on Commonwealth Bonds

The following table sets forth, as of January 1, 2000, the annual fiscal year debt service requirements on outstanding Commonwealth general obligation bonds, special obligation bonds and federal grant anticipation notes. For variable rate bonds with respect to which the Commonwealth is a fixed-rate payor under an associated interest rate exchange agreement, the debt service schedule assumes payment of the fixed rate due under such agreement.

Debt Service Requirements on Commonwealth Bonds
January 1, 2000
(in thousands)(1)

General Obligation Bonds				Federal Grant Anticipation Notes			Special Obligation Bonds			Total Debt Service Commonwealth Bonds
Fiscal Year	Interest on CABS at		Sub Total	Principal	Interest	Sub Total	Principal	Interest	Sub Total	
	Principal	Maturity								
2000	\$206,406	\$31,835	\$449,005	-	\$21,285	\$21,285	\$21,245	\$15,439	\$36,684	\$ 506,974
2001	666,448	14,122	1,144,110	-	42,570	42,570	22,290	29,830	52,120	1,238,800
2002	600,165	45,416	1,074,697	-	42,570	42,570	23,415	28,708	52,123	1,169,390
2003	610,480	48,650	1,059,063	-	42,570	42,570	24,865	27,258	52,123	1,153,757
2004	595,264	68,020	1,034,421	-	42,570	42,570	26,070	26,051	52,121	1,129,112
2005	661,628	9,338	1,012,475	-	42,570	42,570	27,370	24,758	52,128	1,107,173
2006	681,448	4,164	993,808	\$ 73,165	41,733	114,898	28,805	23,315	52,120	1,160,825
2007	694,420	4,588	971,781	76,785	38,114	114,899	30,350	21,774	52,124	1,138,804
2008	685,761	4,896	929,428	80,580	34,319	114,899	31,995	20,126	52,121	1,096,448
2009	676,379	5,705	883,864	84,840	30,061	114,901	33,675	18,444	52,119	1,050,884
2010	608,458	5,344	780,595	89,160	25,741	114,901	35,335	16,791	52,126	947,622
2011	611,041	5,857	751,220	93,715	21,180	114,895	37,300	14,829	52,129	918,244
2012	457,237	5,952	564,684	98,640	16,260	114,900	39,320	12,813	52,133	731,716
2013	458,031	6,742	542,425	102,985	11,913	114,898	41,470	10,650	52,120	709,443
2014	344,943	4,684	408,446	108,495	6,405	114,900	37,530	8,369	45,899	569,245
2015	330,190	3,915	375,317	113,355	1,544	114,899	39,455	6,440	45,895	536,111
2016	292,252	2,604	321,715	-	-	-	41,530	4,368	45,898	367,613
2017	208,520	1,344	225,966	-	-	-	43,710	2,186	45,896	271,862
2018	143,862	623	152,295	-	-	-	-	-	-	152,295
2019	83,724	192	86,238	-	-	-	-	-	-	86,238
2020 and thereafter	7,855	22	8,198	-	-	-	-	-	-	8,198
TOTAL	\$9,624,513	\$274,014	\$13,769,751	\$921,720	\$461,404	\$1,383,124	\$585,730	\$312,147	\$897,877	\$16,050,752

SOURCE: Office of the State Treasurer and Office of the Comptroller.

(1) Totals may not add due to rounding.

Cash Defeasance

On October 13, 1999, the Commonwealth expended approximately \$400.0 million from the Debt Defeasance Trust Fund to purchase securities and establish a sinking fund to provide for the payment of certain existing debt of the Commonwealth. The purchased securities, which included securities issued by the federal government and certain federal agencies, as well as other securities allowed under state finance law, were deposited in an irrevocable trust fund with a third-party trustee. Various Commonwealth general obligation bonds maturing through 2009 were defeased, with an approximate principal amount (maturity amount in the case of capital appreciation bonds) of \$512.6 million. See "FINANCIAL RESULTS – Selected Financial Data – Statutory Basis."

Statutory Debt Limit on Direct Debt

Legislation enacted in December, 1989 imposes a limit on the amount of outstanding "direct" bonds of the Commonwealth. The law, which is codified in Section 60A of Chapter 29, set a fiscal 1991 limit of \$6.8 billion, and provided that the limit for each subsequent fiscal year was to be 105% of the previous fiscal year's limit. The measurement of this limit is performed under the statutory basis of accounting, which differs from GAAP in that the principal amount of outstanding bonds is measured net of discount and costs of issuance. The law further provides that bonds to be refunded from the proceeds of Commonwealth refunding bonds are to be excluded from outstanding "direct" bonds upon the issuance of the refunding bonds. Pursuant to Chapter 33 of the Acts of 1991, the Commonwealth's outstanding special obligation highway revenue bonds are not to be counted in computing the amount of bonds subject to this limit. Pursuant to Chapter 5 of the Acts of 1991, \$287.2 million of Commonwealth refunding bonds issued in September and October, 1991 are not counted in computing the amount of the bonds subject to this limit. Pursuant to Chapter 11 of the Acts of 1997, federal grant anticipation notes are also not to be counted in computing the amount of the bonds subject to this limit. Pursuant to Chapter 127 of the Acts of 1999, bonds issued to pay the operating notes issued by the Massachusetts Bay Transportation Authority are not to be counted in computing the amount of the bonds subject to this limit. See "COMMONWEALTH PROGRAMS AND SERVICES – Massachusetts Bay Transportation Authority." The statutory limit on "direct" bonds during fiscal year 2000 is \$10,549,031,869. The outstanding Commonwealth debt amounts excluded from the limit as of January 1, 2000 are shown in the table below:

Calculation of the Debt Limit (amount in thousands)

	<u>Bonds Outstanding</u>
Balance as of January 1, 2000	\$11,405,977
Less amounts excluded:	
Discount and issuance costs	(407,593)
Federal grant anticipation notes	(899,991)
Assumed county debt	(2,105)
Chapter 5 of the Acts of 1991 refunding bonds	(114,761)
Special obligation bonds	(582,410)
Outstanding Direct Debt	<u>\$ 9,399,117</u>

SOURCE: Office of the Comptroller.

The following table shows the amount of outstanding "direct" debt of the Commonwealth, as compared with the appropriate statutory limit, as of the first day of each fiscal year in which the statutory limit has been in effect and as of January 1, 2000.

Statutory Debt Limit on Direct Debt
(in thousands)

<u>Date</u>	<u>Outstanding Direct Debt</u>	<u>Statutory Limit on Direct Debt</u>
July 1, 1990	\$6,010,063	\$6,800,000
July 1, 1991	6,653,030	7,140,000
July 1, 1992	6,937,500	7,497,000
July 1, 1993	7,259,821	7,871,850
July 1, 1994	7,343,227	8,265,442
July 1, 1995	7,583,823	8,678,715
July 1, 1996	8,094,713	9,112,650
July 1, 1997	8,696,918	9,568,283
July 1, 1998	8,982,072	10,046,697
July 1, 1999	9,248,432	10,549,032
January 1, 2000	9,399,117	10,549,032

SOURCE: Office of the State Treasurer and Office of the Comptroller.

Limit on Debt Service Appropriations

In January, 1990, legislation was enacted to impose a limit on debt service appropriations in Commonwealth budgets beginning in fiscal 1991. The law, which is codified as Section 60B of Chapter 20 of the General Laws, provides that no more than 10% of the total appropriations in any fiscal year may be expended for payment of interest and principal on general obligation debt of the Commonwealth. The limit did not apply to the Fiscal Recovery Bonds. Section 60B is subject to amendment or repeal by the Legislature at any time and may be superseded in the annual appropriations act for any year. The following table shows the percentage of total appropriations expended or estimated to be expended from the budgeted operating funds for debt service on general obligation debt (excluding debt service on Fiscal Recovery Bonds) in the fiscal years indicated.

Debt Service Expenditures
(in millions)

<u>Fiscal Year</u>	<u>Debt Service(1)</u>	<u>Total Budgeted Expenditures and Other Uses</u>	<u>Percentage</u>
1995	\$ 953.0	\$ 16,250.5	5.9%
1996	905.1	16,881.1	5.4
1997	997.6	17,949.0	5.6
1998	1,079.3	19,001.7	5.7
1999	1,173.8	20,244.7	5.8
2000 (estimate)	1,196.7	21,382.4	5.6

SOURCE: Fiscal 1995-1999, Office of the Comptroller; fiscal 2000, Executive Office for Administration and Finance.

(1) Excludes \$277.9 million in fiscal 1995, \$277.9 million in fiscal 1996, \$277.9 million in fiscal 1997 and \$134.1 million in fiscal 1998 for interest and principal payments related to Fiscal Recovery Bonds, which are not included in the calculation of the debt service limit.

Authorized But Unissued Debt

General obligation bonds of the Commonwealth are authorized to correspond with capital appropriations. See "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS – Overview of Capital Spending Process and Controls." Over the last decade, the Commonwealth has typically had a large amount of authorized but unissued debt. However, the Commonwealth's actual expenditures for capital projects in a given year relate more to the capital needs of the Commonwealth in such year than to the total amount of authorized but unissued debt. The table below presents authorized but unissued debt at year end. See "COMMONWEALTH CAPITAL SPENDING."

<u>Fiscal Year</u>	<u>Authorized But Unissued Debt</u>
1995	\$ 5,942,807
1996	8,182,844
1997	11,954,142
1998	12,316,738
1999	12,004,017

SOURCE: Office of the Comptroller

As of January 1, 2000, there was approximately \$10.4 billion of authorized but unissued general obligation debt.

Authorized but unissued debt is measured in accordance with the statutory basis of accounting, which is different from GAAP. Only the net proceeds of bonds issued (exclusive of discount and costs of issuance) are deducted from the amount of authorized but unissued debt. Therefore, the change in authorized but unissued debt at the end of any fiscal year is not intended to correlate to the change in the amount of debt outstanding as measured and reported in conformity with GAAP.

There is \$50 million of authorized but unissued debt under Chapter 33 of the Acts of 1991 that can only be issued as special obligation bonds secured by receipts in the Commonwealth's Highway Fund. There is also \$676.9 million of authorized but unissued debt under Chapter 152 of the Acts of 1997 that can only be issued as special obligation bonds secured by receipts in the Commonwealth's Boston Convention and Exhibition Center Fund. See "Special Obligation Debt." In addition, several of the statutes authorizing general obligation bonds for transportation purposes also authorize such bonds to be issued as special obligation highway bonds, at the discretion of the Governor and the State Treasurer. The aggregate amount of such authorizations as of January 1, 2000 (included as Authorized but Unissued General Obligation Debt in the table above) is \$2.7 billion.

An additional \$600 million of grant anticipation notes may be issued under the federal highway grant anticipation note program. The program authorizes the issuance of notes yielding aggregate net proceeds of up to \$1.5 billion, but the related spending authorizations are currently capped at \$1.35 billion. Notes issued to date have yielded aggregate net proceeds of \$900 million. See "COMMONWEALTH BOND AND NOTE LIABILITIES – Federal Grant Anticipation Notes."

In November, 1999, the Governor approved legislation that de-authorized approximately \$1.9 billion in authorized but unissued general obligation debt of the Commonwealth.

Commonwealth-Supported Debt

Massachusetts Bay Transportation Authority. The MBTA issues its own bonds and notes and is also responsible for the payment of obligations issued by the Boston Metropolitan District prior to the creation of the MBTA in 1964. Historically, the Commonwealth has supported MBTA bonds and notes through guaranties of the debt service on its bonds and notes, contract assistance equal to 90% of the debt service on outstanding MBTA bonds and payment of the MBTA's net cost of service (current expenses, including debt service, minus current income). Beginning July 1, 2000, the Commonwealth's annual obligation to support the MBTA for operating costs and debt service will be limited to a portion of the revenues raised by the Commonwealth's sales tax, although the

Commonwealth will remain contingently liable for the payment of MBTA bonds and notes issued prior to July 1, 2000. Such bonds are currently scheduled to mature annually through fiscal 2028, with annual debt service in the range of approximately \$220 million to \$270 million through fiscal 2013 and declining thereafter. See "COMMONWEALTH PROGRAMS AND SERVICES – Massachusetts Bay Transportation Authority."

Regional Transit Authorities and Woods Hole, Martha's Vineyard and Nantucket Steamship Authority. There are 15 regional transit authorities organized in various areas of the state. The Steamship Authority operates passenger ferries to Martha's Vineyard and Nantucket. Each of these entities issues its own bonds and notes. Commonwealth support of the bonds and notes of the regional transit authorities and the Steamship Authority includes (i) a Commonwealth guaranty pursuant to statutory provisions requiring the Commonwealth to provide each of these entities with funds sufficient to meet the principal of and interest on their bonds and notes as they mature to the extent that funds sufficient for this purpose are not otherwise available to such entity; (ii) the Commonwealth's payment, under applicable statutory provisions, of the net cost of service of the regional transit authorities and the Steamship Authority (current expenses, including debt service, minus current income); and (iii) with respect to the regional transit authorities, Commonwealth contract assistance to such authorities in amounts equal to 50% of their net cost of service. The Steamship Authority is currently self-supporting, requiring no net cost of service or contract assistance payments.

Massachusetts Convention Center Authority. The Massachusetts Convention Center Authority was created for the purpose of promoting the economic development of the Commonwealth by the development and operation of the Hynes Convention Center in Boston and is authorized to issue bonds for any of its corporate purposes. Such bonds are fully secured by contract assistance payments by the Commonwealth, which payments are limited by statute to an amount equal to the annual debt service on \$200 million of bonds outstanding at any one time. The assistance contract is a general obligation of the Commonwealth for which its full faith and credit are pledged. As of January 1, 2000, the Convention Center Authority had \$72.2 million of outstanding bonds on which the Commonwealth will pay approximately \$24.7 million in debt service contract assistance payments in fiscal 2000.

Massachusetts Development Finance Agency, as successor to the Massachusetts Government Land Bank. On September 30, 1998, the Massachusetts Government Land Bank and the Massachusetts Industrial Finance Agency were legally merged into a successor entity, the Massachusetts Development Finance Agency ("MassDevelopment"). MassDevelopment has succeeded to all of the assets and liabilities of the Government Land Bank. MassDevelopment assists in the development of state and federal surplus property for private use and in the development of substandard, blighted or decadent open areas in the Commonwealth. MassDevelopment has direct borrowing power, and the Commonwealth is required to provide contract assistance payments for debt service obligations of MassDevelopment of up to \$6 million per fiscal year for a period of 12 fiscal years, concluding in fiscal 1999, plus contract assistance necessary to defray the debt service on up to \$80 million of bonds issued to redevelop the former federal military base at Fort Devens. Like the Massachusetts Convention Center Authority assistance contract, the contract with MassDevelopment is a general obligation of the Commonwealth for which the full faith and credit of the Commonwealth are pledged. As of January 1, 2000, MassDevelopment had \$80 million of bonds outstanding which are secured by the contract assistance from the Commonwealth, as described above.

Massachusetts Water Pollution Abatement Trust. The Massachusetts Water Pollution Abatement Trust was created to implement the Commonwealth's state revolving fund program under Title VI of the federal Clean Water Act and the federal Safe Drinking Water Act. The Trust is authorized to apply for and accept federal grants and associated Commonwealth matching grants to capitalize the revolving fund and to issue debt obligations to make loans to local governmental units to finance eligible water pollution abatement and water treatment projects. Under state law, each loan made by the Trust is required to provide for debt service subsidies or other financial assistance sufficient to result in the loan being the financial equivalent of a grant to the borrower of between 25% and 90% of the eligible cost of the financed project. A significant portion of such financial assistance is provided through the application of contract assistance payments from the Commonwealth. The Trust's enabling legislation directs the State Treasurer to enter into contract assistance agreements with the Trust for the Clean Water Act program providing for annual contract assistance payments to the Trust of up to \$46 million in the aggregate in each fiscal year. The Safe Drinking Water Act program provides for annual contract assistance payments to the Trust of up to \$9 million in the aggregate per fiscal year for new water treatment projects. The contract assistance agreements constitute general obligations of the Commonwealth for which its faith and credit are pledged, and the Trust's right

to receive payments thereunder may be pledged by the Trust as security for repayment of the Trust's debt obligations.

Foxborough Industrial Development Financing Authority. On April 27, 1999, after discussions with representatives of the National Football League, the Governor, the Speaker of the House and the President of the Senate announced agreement in principle on a proposal to provide for the construction of a new football stadium in Foxborough, Massachusetts. Legislation to implement the proposal was filed by the Governor on May 11, 1999, enacted by the Legislature on May 18, 1999 and signed by the Governor on May 24, 1999. Under the legislation, a new stadium estimated to cost \$225 million is to be financed privately, and \$70 million in capital expenditures for related infrastructure improvements are to be financed by the Foxborough Industrial Development Financing Authority through the issuance of bonds supported by Commonwealth contract assistance. The Commonwealth is to receive \$400,000 per year in parking fees for stadium-related events and an administrative fee of \$1 million per year from the stadium lessee, and will be entitled to recover from the stadium lessee a portion of its contract assistance payments if professional football ceases being played at the stadium during the term of the bonds.

Massachusetts Turnpike Authority. On February 18, 2000 the Governor filed legislation that would require the Commonwealth to pay contract assistance to the Massachusetts Turnpike Authority in an amount sufficient to defray the debt service over 30 years on up to \$600 million of bonds issued to finance costs of the Central Artery/Ted Williams Tunnel project. See "COMMONWEALTH CAPITAL SPENDING – Central Artery/Ted Williams Tunnel Project; Proposed plan."

Turnpike Authority Contract Assistance

The Commonwealth is obligated to pay contract assistance to the Massachusetts Turnpike Authority pursuant to legislation enacted in 1998 and a contract for financial assistance dated as of February 19, 1999 between the Turnpike Authority and the Commonwealth. The payments are in recognition of the financial burden imposed on the Turnpike Authority by virtue of its assumption of the responsibility for operation and maintenance of certain roadways in the Metropolitan Highway System that were formerly maintained by the Commonwealth. The Commonwealth's obligation to make such payments is a general obligation for which the faith and credit of the Commonwealth are pledged for the benefit of the Turnpike Authority and its bondholders. The contract provides that no later than September 1 of each year the Turnpike Authority is to submit to the Secretary of Transportation and Construction a certificate setting forth the total amount of costs incurred by the Turnpike Authority during the prior fiscal year in connection with the operation and maintenance of the roadways covered by the contract. The contract further provides that as soon as practicable following receipt of such certificate, but no later than December 1 of such year, the Commonwealth is to pay the Turnpike Authority the amount set forth in such certificate, provided that such payment may not be less than \$2 million on account of fiscal 2000, may not be less than \$5 million on account of fiscal 2001 and each fiscal year thereafter prior to the fiscal year in which the final segment of the affected roadways is transferred to the Turnpike Authority and may not be more than \$25 million on account of the fiscal year in which such transfer occurs and each fiscal year thereafter.

Debt Service Contract Assistance Requirements on Commonwealth-Supported Debt

The following table sets forth, as of January 1, 2000, the Commonwealth's general obligation contract assistance requirements pursuant to contracts with the Massachusetts Convention Center Authority, MassDevelopment, the Massachusetts Water Pollution Abatement Trust and the Massachusetts Turnpike Authority. (The table does not include appropriations to the Commonwealth Sewer Rate Relief Fund which are provided to mitigate sewer rate increases due to debt service on indebtedness incurred by local and regional issuers to finance water pollution abatement projects required by certain federal environmental laws. For fiscal 2000, such appropriations total approximately \$53.9 million, and for fiscal 2001 the Governor has recommended approximately \$53.9 million.)

GENERAL OBLIGATION CONTRACT ASSISTANCE REQUIREMENTS (1)
(in thousands)

<u>Fiscal Year</u>	<u>Convention Center Authority</u>	<u>Massachusetts Development Finance Agency</u>	<u>Massachusetts Water Pollution Abatement Trust</u>	<u>Turnpike Authority(3)</u>	<u>Total</u>
2000(2)	\$25,435	\$13,282	\$ 15,655	--	\$54,372
2001	25,035	13,285	39,471	\$ 2,500	79,791
2002	20,369	13,280	39,187	5,000	77,836
2003	16,378	13,280	39,174	16,700	85,532
2004	16,337	13,283	38,894	18,100	86,614
2005	16,302	13,281	38,633	25,000	93,216
2006	14,735	13,280	38,184	25,000	91,199
2007	2,532	10,162	38,435	25,000	76,129
2008	2,534	--	38,070	25,000	65,604
2009	2,534	--	37,987	25,000	65,521
2010	2,534	--	37,814	25,000	65,348
2011	2,534	--	37,215	25,000	64,749
2012	2,533	--	37,020	25,000	64,553
2013	2,536	--	34,489	25,000	62,025
2014	2,536	--	31,604	25,000	59,140
2015	--	--	30,034	25,000	55,034
2016	--	--	25,333	25,000	50,333
2017	--	--	18,290	25,000	43,290
2018	--	--	13,005	25,000	38,005
2019	--	--	12,763	25,000	37,763
2020	--	--	7,049	25,000	32,049
2021	--	--	--	25,000	25,000
2022	--	--	--	25,000	25,000
2023	--	--	--	25,000	25,000
2024	--	--	--	25,000	25,000
2025	--	--	--	25,000	25,000
2026	--	--	--	25,000	25,000
2027	--	--	--	25,000	25,000
2028	--	--	--	25,000	25,000
2029	--	--	--	25,000	25,000
2030	--	--	--	25,000	25,000
2031	--	--	--	25,000	25,000
2032	--	--	--	25,000	25,000
2033	--	--	--	25,000	25,000
2034	--	--	--	25,000	25,000
2035	--	--	--	25,000	25,000
2036	--	--	--	25,000	25,000
2037	--	--	--	25,000	25,000
2038	--	--	--	25,000	25,000
2039	--	--	--	25,000	25,000
2040	--	--	--	25,000	25,000
2041	--	--	--	25,000	25,000
2042	--	--	--	25,000	25,000
2043	--	--	--	25,000	25,000
2044	--	--	--	<u>25,000</u>	<u>25,000</u>
Total	<u>\$156,582</u>	<u>\$111,652</u>	<u>\$648,304</u>	<u>\$1,042,300</u>	<u>\$2,058,240</u>

SOURCES: Massachusetts Water Pollution Abatement Trust, Massachusetts Convention Center Authority and MassDevelopment columns – Office of the State Treasurer; Turnpike Authority column – Turnpike Authority.

- (1) Totals may not add due to rounding.
- (2) Partial year.
- (3) Estimated operating and maintenance costs to be reimbursed by the Commonwealth.

Commonwealth-Guaranteed Debt

University of Massachusetts Building Authority and Massachusetts State College Building Authority. Two higher education building authorities, created to assist institutions of public higher education in the Commonwealth, may issue bonds which are guaranteed as to their principal and interest by the Commonwealth. The guaranty is a general obligation of the Commonwealth for which its full faith and credit are pledged. In addition to such guaranty, certain revenues of these authorities, including dormitory rental income and student union fees, are pledged to their respective debt service requirements. While revenues thus far have been sufficient to meet debt service requirements, they have not been sufficient in all cases to pay operating costs. In such cases, the operating costs have been met by Commonwealth appropriations.

Indirect Obligations

Massachusetts Housing Finance Agency (MHFA) and Massachusetts Home Mortgage Finance Agency (MHMFA). The legislation establishing the MHFA limits the outstanding indebtedness of MHFA issued for the purpose, among others, of financing certain multi-family housing projects within the Commonwealth to \$2.7 billion of bonds or notes (excluding certain notes issued for construction financing) and limits the proportion of such indebtedness that may be evidenced by notes rather than bonds.

MHFA also provides mortgage loan financing with respect to certain single-family residences within the Commonwealth. The acts establishing MHFA and MHMFA place a \$1.7 billion aggregate limit on outstanding indebtedness of both MHFA and MHMFA to finance single family housing. MHMFA no longer has any bonds outstanding, and the issuance of additional debt of MHMFA is not currently contemplated.

Bonds and notes issued by MHFA are solely the obligations of MHFA, payable directly or indirectly from, and secured by a pledge of, revenues derived from MHFA's mortgage on or other interest in the financed housing. MHFA's enabling legislation also permits, and certain resolutions authorizing the respective issuance of multi-family and single-family housing bonds to date have required the creation of a capital reserve fund in connection with the issuance of such bonds. With respect to multi-family housing bonds, any such capital reserve fund must be in an amount at least equal to the maximum annual debt service in any succeeding calendar year on all outstanding bonds secured by such capital reserve fund, including the bonds then being issued. With respect to single family housing bonds, any such fund must be maintained in an amount not less than one-quarter of the maximum amount of interest becoming due in the current or any succeeding fiscal year of the agency and not greater than the maximum amount of debt service becoming due in the current or any succeeding fiscal year on all outstanding bonds which are secured by such capital reserve fund. Upon certification by the chairman of MHFA to the Governor of any amount necessary to restore a capital reserve fund to the above-described requirement, the Legislature may, but is not legally bound to, make an appropriation in such amount. No such appropriation has been necessary to date.

As of December 31, 1999, multi-family obligations of the MHFA totaled approximately \$2.41 billion (of which approximately \$665 million were secured by capital reserve funds) and single-family obligations of the MHFA totaled approximately \$1.38 billion (none of which was secured by capital reserve funds). As of such date the capital reserve funds were maintained at the required levels without Commonwealth appropriations and no payments from such funds have been necessary. Authorized but unissued amounts as of such date were approximately \$286 million for multi-family bonds and approximately \$323 million for single-family bonds.

HEFA Community Colleges Program Bonds. The Massachusetts Health and Educational Facilities Authority (HEFA) issued, on April 1, 1998, \$17,515,000 of its Refunding Revenue Bonds, Community Colleges Program Issue, Series B (the "Community Colleges Bonds") in order to advance refund bonds that it had issued in 1992 to fund loans to two of the Commonwealth's community colleges. The primary security for the Community Colleges Bonds are fees, rents, rates and other charges to students and other users of the projects financed. As additional security for the Community Colleges Bonds, the Commonwealth, acting through the Board of Higher Education, entered into a Contract for Financial Assistance, Maintenance and Services with HEFA. Pursuant to this contract, the Board of Higher Education is obligated to provide financial assistance, from moneys legally available to it, if the revenues collected on behalf of HEFA are insufficient to pay debt service on the Community Colleges Bonds. Pursuant to the contract, the financial assistance will be provided solely from funds otherwise appropriated

for the applicable community college in the Commonwealth's operating budget. The financial assistance does not constitute either a general obligation, or a so-called "moral obligation," of the Commonwealth, as the Commonwealth is not obligated to continue to appropriate moneys to the Board, and the credit of the Commonwealth is not pledged to the Community Colleges Bonds.

MSCBA Project Revenue Bonds. Massachusetts State College Building Authority ("MSCBA") issued, on August 12, 1999, \$37,816,966.40 of its Project Revenue Bonds, Senior Series 1999-A, and \$45,915,000 of its Project Revenue Bonds, Series 1999-1 (the "State Colleges Bonds") in order to fund repair and renovation projects and new construction projects at the State Colleges. The primary security for the State Colleges Bonds are fees, rents, rates and other charges to students and other users of the projects financed. As additional security for the State Colleges Bonds, each Series of Bonds is secured by a pledge of certain funds and accounts established under its respective Trust Agreement and Series Resolution. As additional security, the Board of Higher Education has pledged a portion of the applicable State College's gifts, grants and trust funds and any funds appropriated by the legislature for the applicable State College. This pledge does not constitute either a general obligation, or a so-called "moral obligation," of the Commonwealth, as the Commonwealth is not obligated to continue to appropriate moneys for the state colleges, and the credit of the Commonwealth is not pledged to the State Colleges Bonds.

Plymouth County Certificates of Participation. In May, 1992, Plymouth County caused to be issued \$110,535,000 of certificates of participation (the "1992 Plymouth COPs") to finance the construction of the 1,140-bed Plymouth County Correctional Facility (the "Facility"). In March, 1999, Plymouth County caused to be issued \$140,065,000 of certificates of participation (the "1999 Plymouth COPs") to advance refund the 1992 Plymouth COPs, construct an administration office building and auxiliary facilities near the Plymouth County Correctional Facility and to fund repairs and improvements to the Facility. The Commonwealth, acting through the Executive Office of Public Safety and the Department of Correction, entered into a Memorandum of Agreement with Plymouth County, under which the Commonwealth is obligated to pay for the availability of 380 beds of the facility, regardless of whether 380 state prisoners are housed therein. The amounts payable by the Commonwealth will at least equal the debt service on the 1999 Plymouth COPs, but are subject to appropriation of said amounts by the Legislature to the Executive Office of Public Safety. The obligation of the Commonwealth under the Memorandum of Agreement does not constitute a general obligation or a pledge of the credit of the Commonwealth.

City of Chelsea Commonwealth Lease Revenue Bonds. In November, 1993, the City of Chelsea, acting through its industrial development financing authority, issued \$95,750,000 aggregate principal amount of lease revenue bonds. The proceeds of the bonds were loaned to the Massachusetts Industrial Finance Agency (now MassDevelopment) and applied to the cost of the Massachusetts Information Technology Center, a tax processing facility of the Department of Revenue and a data processing information system center for the Department and for certain other departments and agencies of the Commonwealth. The bonds bear interest at a variable rate, and under an interest rate swap agreement that was entered into at the time, MassDevelopment receives variable rate payments with respect to the full amount of the bonds and is obligated to make fixed rate payments in exchange therefor. Simultaneously with the issuance of the bonds, the Commonwealth entered into a 30-year lease which provides for the payment of debt service on the bonds and other expenses and costs associated with the project. The obligations of the Commonwealth do not constitute a general obligation or a pledge of the credit of the Commonwealth and are subject to annual appropriation by the Legislature. The bonds are limited obligations of the city of Chelsea and do not constitute a debt or pledge of the faith and credit of the city.

Route 3 North. On August 12, 1999, the Governor approved legislation to provide for the widening and improvement of state Route 3 North by means of a design/build procurement and private financing. The legislation is similar to bills passed by each of the houses of the Legislature in 1998. Pursuant to the legislation approved by the Governor, the Secretary of Transportation and Construction has solicited proposals from private developers to enter into a lease/lease-back arrangement with the Massachusetts Highway Department for a term of up to 30 years after completion and final acceptance of the project. The credit of the Commonwealth will not be pledged to the payment of any debt instruments issued for the project, and tolls are prohibited. If the total anticipated cost of the project, excluding ongoing maintenance expenses and interest payments, exceeds \$200 million, if the selected developer plans to issue taxable bonds or if the state's annual payments are expected to exceed \$14 million at any time, the Secretary of Transportation and Construction is required to notify the Legislature's Transportation Committee, which can then call the parties to a public meeting to discuss the matter.

OTHER COMMONWEALTH LIABILITIES

Retirement Systems and Pension Benefits

Commonwealth Responsibility for Pension Costs. The Commonwealth is responsible for the payment of pension benefits for Commonwealth employees (members of the state employees' retirement system) and for teachers of the cities, towns and regional school districts throughout the state (members of the teachers' retirement system, except for teachers in the Boston public schools who are members of the State-Boston retirement system but whose pensions are also the responsibility of the Commonwealth). Employees of certain independent authorities and agencies, such as the Massachusetts Water Resources Authority and of counties, cities and towns (other than teachers) are covered by 104 separate retirement systems. However, the Commonwealth assumed responsibility, beginning in fiscal 1982, for payment of cost of living adjustments for the 104 local retirement systems, in accordance with the provisions of Proposition 2½. The members of these state and local retirement systems do not participate in the federal Social Security System. On June 6, 1997 Governor Weld approved legislation removing from the Commonwealth the cost of future cost-of-living adjustments for these local retirement systems. The legislation provided that local retirement systems fund future cost-of-living adjustments.

Pension Reserves and Employee Contributions. The state employees' and teachers' retirement systems are partially funded by employee contributions of regular compensation – 5% for those hired before January 1, 1975, 7% for those hired from January 1, 1975 through December 31, 1983, 8% for those hired from January 1, 1984 through June 30, 1996, and 9% for those hired on or after July 1, 1996, 12% for members of the state police hired after July 1, 1996 plus an additional 2% of compensation above \$30,000 per year for all those members hired on or after January 1, 1979.

The systems were originally established as "pay-as-you-go" systems, meaning that amounts were appropriated each year to pay current benefits, and no provision was made to fund currently the future liabilities already incurred. In fiscal 1978 the Commonwealth began to address the unfunded liabilities of the two state systems by making appropriations to pension reserves. Prior to the establishment of the pension funding program described below, the Commonwealth appropriated approximately \$680 million to the pension reserves during the mid-1980's, in addition to the pay-as-you-go pension costs during those years.

Pension Funding Plan. Comprehensive pension funding legislation approved in January, 1988 required the Commonwealth to fund future pension liabilities currently and to amortize the Commonwealth's accumulated unfunded liabilities to zero by June 30, 2028. The legislation was revised in July, 1997, as part of the fiscal 1998 budget, to require the amortization of such liabilities by June 30, 2018. The legislation requires the Secretary of Administration and Finance to prepare a funding schedule that provides for the normal cost of Commonwealth benefits (normal cost being that portion of the actuarial present value of pension benefits which is allocated to a valuation year by an actuarial cost method) and to amortize the unfunded actuarial liability of the Commonwealth for its pension obligations. The funding schedule is required to be updated every three years on the basis of new actuarial valuation reports prepared under the direction of the Secretary of Administration and Finance. The Secretary is also required to conduct experience investigations every six years.

Funding schedules are to be filed with the Legislature triennially by March 1 and are subject to legislative disapproval. Under the pension legislation, if a schedule is not approved by the Legislature, payments are to be made in accordance with the most recently approved schedule; such payments must, however, at least equal the prior year's payments. The Commonwealth is contractually obligated to the members of the affected retirement systems to make appropriations in accordance with the funding schedule.

Current Funding Schedule and Actuarial Valuations. The most recent funding schedule that has been approved by the Legislature was filed by the Secretary of Administration and Finance on February 25, 1999. The schedule was based on an actuarial valuation dated as of January 1, 1998, which was released by the Public Employee Retirement Administration Commission (PERAC) on October 26, 1998.

February 25, 1999 Funding Schedule for Pension Obligations
(in thousands)

<u>Fiscal Year</u>	<u>Payments</u>	<u>Fiscal Year</u>	<u>Payments</u>
1999	\$ 898,461	2009	\$1,033,177
2000	910,024	2010	1,045,891
2001	922,050	2011	1,058,986
2002	934,557	2012	1,072,475
2003	947,564	2013	1,086,368
2004	961,092	2014	1,100,677
2005	975,160	2015	1,115,416
2006	989,792	2016	1,130,597
2007	1,005,008	2017	1,146,234
2008	1,020,833	2018	552,962

SOURCE: Executive Office for Administration and Finance, Fiscal Affairs Division.

The funding schedule above was based on actuarial valuations of the state employees' and teachers' retirement systems and the State-Boston retirement system as of January 1, 1998. The unfunded actuarial accrued liability based on this valuation is \$4.371 billion for state employees and state teachers, \$519.9 million for Boston teachers and \$912 million for cost-of-living increases granted for local systems prior to July, 1997, for a total unfunded liability of \$5.803 billion. The valuation as of January 1, 1998 was based on actuarial assumptions including future investment earnings at a rate of 8.25% per year, annual salary increases at 6% and annual cost-of-living increases for pensioners at the rate of 3% on the first \$9,000 of benefits. The valuation study determined the actuarial value of assets by phasing in a five-year average value rather than current market value at the time of valuation. "Actuarial accrued liability" is the estimated present value of all benefits to be paid to existing pensioners and current employees less the present value of the future normal costs associated with such employees. The "unfunded" liability is the amount by which the actuarial accrued liability exceeded accumulated assets set aside therefor and represents the present value of the amount that would have to be contributed in the future in addition to normal costs in order for the liability to be fully funded.

On June 6, 1997, Governor Weld approved legislation that provides, subject to legislative approval, for annual increases in cost-of-living allowances (equal to the lesser of 3% or the previous year's percentage increase in the United States Consumer Price Index) for members of the state employees' and teachers' retirement systems, to be funded by the investment income of the systems. All of the funding schedules for the state systems described herein assume that such annual increases will be approved. Local retirement systems that have established pension funding schedules may opt in to the requirement as well, with the costs and actuarial liabilities attributable to the cost-of-living allowances required to be reflected in such systems' funding schedules.

See "INVESTMENT POLICIES" for information regarding the investment policies relating to the Commonwealth's pension funds. On August 9, 1996, Governor Weld approved legislation authorizing the transfer to the Pension Reserves Investment Management Board of all assets of the state employees' and teachers' retirement systems then managed by the State Treasurer. Such transfer occurred on November 7, 1996.

On April 28, 1999 a pension valuation report prepared by independent actuarial consultants to the Pension Reserves Investment Management (PRIM) Board was released. Using the same data and assumptions employed by PERAC in its October, 1998 valuation report (based on an actuarial valuation of assets and liabilities as of January 1, 1998), the independent report found the unfunded actuarial liability to be \$6.346 billion (rather than \$4.371 billion) for state employees and state teachers and \$583.3 million (rather than \$519.9 million) for Boston teachers, making the total unfunded liability \$7.841 billion rather than \$5.803 billion. The new study did not re-evaluate the earlier findings with respect to cost-of-living increases granted for local systems prior to July, 1997. The report ascribed the differences between the consultants' results and PERAC's results to deficiencies in the actuarial valuation software used by PERAC for its valuation. PERAC has since converted to a new actuarial software system and has produced results approximating those reported by the PRIM Board consultants.

The April 28, 1999 report is included within a larger report prepared by the same consultants which was presented to the PRIM Board on November 23, 1999. In preparing the larger report, the consultants undertook to review the economic and demographic assumptions used by PERAC in its October, 1998 valuation report, to test those assumptions by means of an experience study of the actual experience of the relevant retirement systems and to project the resulting data forward from January 1, 1998 to January 1, 1999 and June 30, 1999. (Although the 1988 pension funding legislation requires an experience study to be conducted every six years, none has ever been undertaken.) After revising certain actuarial assumptions on the basis of the experience study (the salary growth assumption, certain demographic assumptions related to turnover and retirement and certain assumptions related to post-retirement mortality), the PRIM Board consultants recalculated the January 1, 1998 unfunded actuarial liability to be \$8.975 billion for state employees and state teachers and \$717.1 million for Boston teachers, making the total unfunded liability \$10.604 billion. Projecting forward to January 1, 1999 and June 30, 1999, the comparable total unfunded liability figures were calculated to be \$10.398 billion and \$9.483 billion, respectively.

PERAC is expected to complete an experience study by the summer of 2000.

The pension appropriation contained in the fiscal 2000 budget and the pension appropriation contained in the Governor's fiscal 2001 budget recommendations are consistent with the February 25, 1999 funding schedule. On February 25, 2000 the Governor approved legislation providing for \$50 million in additional fiscal 2000 appropriations to supplement pension funding, and the Governor's fiscal 2001 budget recommendations provide for \$100 million in additional fiscal 2001 appropriations for a reserve to supplement pension funding pursuant to a revised schedule based on actuarial valuations as of January 1, 1999, which is expected by the Executive Office for Administration and Finance to become the official funding schedule for the next three years. See "2000 FISCAL YEAR" and "2001 FISCAL YEAR."

On March 1, 2000 the Secretary of Administration and Finance filed a revised pension funding schedule, which is subject to legislative disapproval. If no action is taken by the House Committee on Ways and Means within 45 days of the filing, the schedule will be deemed to have been approved. The chairman of the House Committee on Ways and Means has indicated that he disagrees with the actuarial asset valuation methodology that was used in connection with the schedule.

March 1, 2000 Funding Schedule for Pension Obligations
(in thousands)

<u>Fiscal Year</u>	<u>Payments</u>	<u>Fiscal Year</u>	<u>Payments</u>
2001	\$1,028,697	2010	\$1,613,837
2002	1,050,064	2011	1,640,178
2003	1,072,500	2012	1,674,983
2004	1,096,058	2013	1,936,555
2005	1,120,793	2014	1,974,927
2006	1,146,765	2015	2,015,219
2007	1,196,667	2016	2,057,525
2008	1,225,301	2017	2,101,946
2009	1,229,919	2018	979,487

SOURCE: Executive Office for Administration and Finance, Fiscal Affairs Division.

The funding schedule above was based on actuarial valuations of the state employees' and teachers' retirement systems and the State-Boston retirement system as of January 1, 1999. The unfunded actuarial accrued liability based on this valuation is \$6.13 billion for state employees and state teachers, \$556 million for Boston teachers and \$849 million for cost-of-living increases granted for local systems prior to July, 1997, for a total unfunded liability of \$7.53 billion. The valuation as of January 1, 1999 was based on actuarial assumptions including future investment earnings at a rate of 8.25% per year, annual salary increases at 6% and annual cost-of-living increases for pensioners at the rate of 3% on the first \$12,000 of benefits. As noted above, funding schedules prior to the February 25, 1999 schedule were based on valuation studies that used current market value for assets. The January 1, 1998 valuation study upon which the February 25, 1999 schedule was based adjusted this methodology to reduce the potential volatility in market value from year to year. As the January 1, 1998 study noted, typical methodologies used to develop actuarial value of assets recognize asset gains and losses over a five-

year period, which would have led at that time to an actuarial value of approximately 80-85% of the market value. The January 1, 1998 study began to phase in the five-year average methodology by using 97% of the market value. PERAC indicated in that study that it intended to phase in the five-year average method or a similar method over several years. To assist the Secretary of Administration and Finance with respect to the recently filed schedule, PERAC prepared a range of schedules based on various amortization and asset valuation methodologies. Some schedules, including the one that the Secretary filed, used 97% of market value; other schedules used 94% of market value, which would have continued the phase-in contemplated by the January 1, 1998 study. The chairman of the House Ways and Means Committee has indicated that he would favor continuing the phase-in of the five-year average approach.

The Commonwealth has now completed the transition from a pay-as-you-go system to an actuarially funded system. Accordingly, as contemplated by the pension funding legislation approved in January, 1988, amounts required to be appropriated in the eleventh and later years of the funding schedule need not be sufficient to cover the benefit costs payable in those years. In fiscal 1998 the benefit costs exceeded the amount appropriated by approximately \$20.4 million, which was disbursed from the Pension Reserves Investment Trust Fund to cover such costs. For fiscal 1999, a similar disbursement of approximately \$132 million was necessary. For fiscal 2000, it is estimated that \$281 million will be disbursed from the PRIT Fund.

Long-Term Operating Leases

In addition to Commonwealth-owned buildings and facilities, the Commonwealth leases additional space from private parties. In fiscal 1999, rental expenditures under these operating leases totaled approximately \$108.4 million. Minimum future rental expenditure commitments of the Commonwealth under operating leases in effect at June 30, 1999 are set forth below. These amounts represent expenditure commitments of both budgeted and non-budgeted funds.

Operating Leases
June 30, 1999
(in thousands)

<u>Fiscal Year</u>	<u>Operating Leases</u>
2000	\$101,120
2001	81,377
2002	65,703
2003	46,649
2004	19,239
2005 and thereafter	<u>32,739</u>
Total	<u>\$346.827</u>

SOURCE: Office of the Comptroller.

Long-Term Capital Leases

In certain circumstances, the Commonwealth has acquired certain types of capital assets under long-term capital leases. Typically, these arrangements relate to computer and telecommunications equipment and to motor vehicles.

Long-term total principal and interest obligations at June 30, 1999 related to capital leases are as follows:

Capital Lease Obligations
June 30, 1999
(in thousands)

<u>Fiscal Year</u>	<u>Capital Leases</u>
2000	\$27,910
2001	23,278
2002	16,371
2003	10,761
2004	5,142
2005 and thereafter	<u>9,636</u>
Total	<u>\$93,098(1)</u>

SOURCE: Office of the Comptroller.

(1) As of June 30, 1999, the principal amount of these obligations was \$78.0 million.

School Building Assistance

The school building assistance program was established in 1948 to promote the planning and construction of school buildings and the establishment of consolidated and regional schools in the Commonwealth. Under this program, cities, towns, regional school districts and the three counties that maintain agricultural schools can obtain

reimbursements from the Commonwealth for a portion of the construction costs (including any interest expense from indebtedness incurred) of approved school projects. With the exception of grants to assist cities, towns and regional school districts in the elimination of racial imbalance, the reimbursement percentage varies by municipality and may range from 50% to 90% of total construction costs. School projects for the purpose of eliminating racial imbalance are eligible for 90% reimbursement. Grants are usually payable over a period of up to 20 years to defray a portion of the debt service on city, town, district or county bonds issued to pay construction costs. Payment is made to cities, towns, regional school districts and counties from amounts annually appropriated for the school building assistance program. The following table shows the amount of the Commonwealth's obligation to pay such grants as of July 1, 1999. In his fiscal 2001 budget recommendations, the Governor has proposed a major restructuring of the school building assistance program. See "2001 FISCAL YEAR."

**School Building Assistance Obligations
(in thousands)**

<u>Fiscal Year</u>	<u>Budgeted School Building Assistance Obligations</u>	<u>Fiscal Year</u>	<u>Budgeted School Building Assistance Obligations</u>
2000	\$273,978	2011	\$257,608
2001	324,699	2012	235,163
2002	320,328	2013	223,405
2003	317,681	2014	206,875
2004	312,771	2015	192,056
2005	307,058	2016	177,896
2006	301,551	2017	159,034
2007	297,249	2018	127,055
2008	291,464	2019	98,802
2009	281,175	2020	53,439
2010	272,397	Total	<u>\$5,031.685</u>

SOURCE: Department of Education, School Facilities Service Bureau.

Unemployment Compensation Trust Fund

The assets and liabilities of the Commonwealth Unemployment Compensation Trust Fund are not assets and liabilities of the Commonwealth. As of January 31, 2000 the private contributory sector of the Massachusetts Unemployment Trust Fund had a surplus of \$1.792 billion. The Division of Employment and Training's January, 2000, quarterly report indicated that the contributions provided by current law should rebuild reserves in the system to \$2.203 billion by the end of 2004. See Exhibit A, "Economic Information," under the heading "Employment-Unemployment."

INVESTMENT POLICIES

For information with respect to the investment of Commonwealth funds, see note 4 to the fiscal 1999 statutory basis financial statements contained in the Statutory Basis Financial Report included by reference as Exhibit B and Note 3 to the fiscal 1999 GAAP-basis financial statements contained in the Comprehensive Annual Financial Report included by reference as Exhibit C.

LITIGATION

There are pending in state and federal courts within the Commonwealth and in the Supreme Court of the United States various suits in which the Commonwealth is a party. In the opinion of the Attorney General, no litigation is pending or, to his knowledge, threatened which is likely to result, either individually or in the aggregate, in final judgments against the Commonwealth that would affect materially its financial condition.

Commonwealth Programs and Services. From time to time actions are brought against the Commonwealth by the recipients of governmental services, particularly recipients of human services benefits, seeking expanded

levels of services and benefits and by the providers of such services challenging the Commonwealth's reimbursement rates and methodologies. To the extent that such actions result in judgments requiring the Commonwealth to provide expanded services or benefits or pay increased rates, additional operating and capital expenditures might be needed to implement such judgments. In June, 1993, in an action challenging the Commonwealth's funding of public primary and secondary education systems on both federal and state constitutional grounds, *Webby v. Dukakis* (now known as *McDuffy v. Robertson*, Supreme Judicial Court for Suffolk County No. 90-128), the Supreme Judicial Court ruled that the Massachusetts Constitution imposes an enforceable duty on the Commonwealth to provide adequate public education for all children in the Commonwealth and that the Commonwealth was not at that time fulfilling this constitutional duty. However, the court also ruled that no then-present statutory enactment was to be declared unconstitutional. The court further ruled that the Legislature and the Governor were to determine the necessary response to satisfy the Commonwealth's constitutional duty, although a single justice of the court could retain jurisdiction to determine whether, within a reasonable time, appropriate legislative action had been taken. Comprehensive education reform legislation was approved by the Legislature and the Governor later in June, 1993. See "COMMONWEALTH PROGRAMS AND SERVICES – Local Aid; *Commonwealth Financial Support for Local Governments*." On May 10, 1995, the plaintiffs filed a motion for further relief, arguing that the 1993 legislation did not provide sufficiently for public education and that its timetable was too slow. On December 22, 1999, plaintiffs filed a motion for further relief in which they argue that the Commonwealth has not complied with the requirements of the *McDuffy* decision, and in which they seek declaratory and injunctive relief. Defendants filed an opposition motion on January 31, 2000 arguing that the Commonwealth had met its obligations under *McDuffy* by taking appropriate steps within a reasonable time to implement education reform. The Court has issued an interim case management order requiring the parties to attempt to stipulate to facts over the next four months and setting a status conference for June, 2000.

Lopez v. Board of Education, et al. (Supreme Judicial Court for Suffolk County No. 98-584). Plaintiff students in certain school districts on Cape Cod invoked the decision of the Supreme Judicial Court in *McDuffy, supra*, and challenged the constitutionality of the school financing formula contained in the education reform act. The plaintiffs seek declaratory relief, additional appropriations and damages. The court dismissed the Senate, the House of Representatives and the State Treasurer as defendants in the case, but permitted plaintiffs to amend their complaint, upon motion, to add the Commonwealth as a defendant. The plaintiffs have moved for summary judgment. In June, 1999, the Commonwealth filed a cross-motion for summary judgment.

Challenges by residents of five state schools for the retarded in *Ricci v Murphy* (U.S. District Court C.A. No. 72-469-T) resulted in a consent decree in the 1970's which required the Commonwealth to upgrade and rehabilitate the facilities in question and to provide services and community placements in western Massachusetts. The District Court issued orders in October, 1986 leading to termination of active judicial supervision. On May 25, 1993, the District Court entered a final order vacating and replacing all consent decrees and court orders. In their place, the final order requires lifelong provisions for individualized services to class members and contains requirements regarding staffing, maintenance of effort (including funding) and other matters.

Rolland v. Cellucci (U.S. District Court C.A. No. 98-32208 KPN) is a class action by mentally retarded nursing home patients seeking community placements and services. The court approved a settlement agreement entered into by the parties which will provide certain benefits to nursing home residents with mental retardation and other developmental disabilities over the next seven years. The Department of Mental Retardation estimates that the agreement will cost approximately \$5 million per fiscal year for seven years.

In *Ramos v. McIntire* (Suffolk Superior Court No. 98-2154), plaintiffs allege that the Department of Transitional Assistance violated state and federal law, including the Americans with Disabilities Act, by failing to accommodate welfare recipients with learning disabilities in its Employment Services Program. The court has denied, without prejudice, plaintiffs' motions for class certification and injunctive relief. If the case remains limited to the two existing plaintiffs, potential liability will likely be under \$50,000. However, if the Court at some point allows a motion for class certification, potential liability could increase to \$33.5 million. The Court denied a renewed motion for class certification.

The DMA is also engaged in four related lawsuits in which numerous hospitals seek injunctive and declaratory relief from DMA's implementation of its prepayment review program and its postpayment review program. The hospitals also seek damages consisting of the value of all claims for payment previously denied by

DMA under these two review programs, where the basis for the denial was DMA's determination that the claims were not medically necessary. In *Athol Memorial Hospital, et al. v. Commissioner of the Division of Medical Assistance* (Suffolk Superior Court No. 99-2325-F), the plaintiffs seek injunctive and declaratory relief. In *Baystate Medical Center v. Commissioner of the Division of Medical Assistance* (Suffolk Superior Court No. 99-2115-E), the plaintiff seeks injunctive and declaratory relief and monetary damages. In *Massachusetts Hospital Association, et al. v. Commissioner of the Division of Medical Assistance* (Suffolk Superior Court No. 99-2324-E), the plaintiffs seek injunctive and declaratory relief. *Salem Hospital v. Commissioner of the Division of Medical Assistance* (Suffolk Superior Court No. 99-0750-C), is an alleged class action seeking declaratory relief and monetary damages.

In the *Baystate Medical* case, the Court dismissed the claims under 42 U.S.C. § 1983 on December 16, 1999. In the *Athol* and *Salem* cases, the Court dismissed the claims under 42 U.S.C. § 1983 on December 29, 1999. In the *Salem* case, the Court denied the motion for class certification on December 29, 1999.

The remaining claims for declaratory and injunctive relief could prevent DMA from continuing to implement the prepayment and postpayment review programs under its new regulations. Since continued implementation of these programs would save the Division between \$6 million and \$11 million annually, DMA's expenditures would increase by that amount if it is barred from implementing these programs. The remaining claims for damages could reach approximately \$40 million.

Valerie Anderson v. Cellucci (U.S. District Court C.A. No. 99-10617-DPW), is a class action against the Department of Mental Retardation and the Division of Medical Assistance asserting that the Commonwealth has an obligation under the Medicaid Home and Community Based Services Waiver Program to provide group residences for adult mentally retarded individuals who currently reside with their parents. The Department of Mental Retardation estimates that the cost of eliminating its existing waiting list for placements would be \$50 million. Cross motions for summary judgment are pending.

Environmental Matters. The Commonwealth is engaged in various lawsuits concerning environmental and related laws, including an action brought by the U.S. Environmental Protection Agency alleging violations of the Clean Water Act and seeking to enforce the clean-up of Boston Harbor. *United States v. Metropolitan District Commission* (U.S. District Court C.A. No. 85-0489-MA). See also *Conservation Law Foundation v. Metropolitan District Commission* (U.S. District Court C.A. No. 83-1614-MA). The Massachusetts Water Resources Authority (MWRA), successor in liability to the Metropolitan District Commission (MDC), has assumed primary responsibility for developing and implementing a court-approved plan and timetable for the construction of the treatment facilities necessary to achieve compliance with the federal requirements. The MWRA currently projects that the total cost of construction of the wastewater facilities required under the court's order, not including CSO costs, will be approximately \$3.142 billion in current dollars, with approximately \$601 million to be spent after June 30, 1997. With CSO costs, the MWRA anticipates spending approximately \$901 million after that date. Under the Clean Water Act, the Commonwealth may be liable for any cost of complying with any judgment in these or any other Clean Water Act cases to the extent the MWRA or a municipality is prevented by state law from raising revenues necessary to comply with such a judgment.

On February 12, 1998, the U.S. Department of Justice filed a complaint in federal district court seeking to compel the MWRA to build a water filtration plant for the metropolitan Boston water supply and, together with the MDC, to take certain watershed protection measures. *United States v. MWRA* (U.S. District Court C.A. No. 98-10267). The MWRA Board of Directors has voted to apply to the state Department of Environmental Protection for a ruling that it not be required to filter water; a decision by DEP is expected by the end of 1998. The federal district court has issued a scheduling order under which it will decide in March, 1999 whether the Safe Water Drinking Act compels the MWRA to build a filtration system or whether the MWRA can demonstrate that its data entitles it to avoid building such a system. It is too early to predict what remedy the court will order if it decides adversely to the MWRA. The U.S. District Court issued a decision on May 5, 1999 allowing the U.S. government's motion for summary judgment by finding the MWRA liable under the Safe Drinking Water Act, but denying its motion for summary judgment on the remedy issue. A trial on appropriate remedies, if any, including filtration, took place in January, 2000.

Wellesley College is seeking contribution from the Commonwealth for costs related to environmental contamination on the Wellesley College campus and adjacent areas, including Lake Waban. Such costs may reach

\$35 million. Currently, the Commonwealth and Wellesley College are mediating this potential claim for contribution. As of March 3, 2000, no litigation against the Commonwealth has been filed.

Taxes and Other Revenues. In *The First National Bank of Boston v. Commissioner of Revenue* (Appellate Tax Board No. F232249), the First National Bank of Boston challenges the constitutionality of the former version of the Commonwealth's bank excise tax. In 1992, several pre-1992 petitions filed by the bank, which raised the same issues, were settled prior to a board decision. The bank has now filed claims with respect to 1993 and 1994. The bank claims that the tax violated the Commerce Clause of the United States Constitution by including its worldwide income without apportionment. The Department of Revenue estimates that the amount of abatement, including interest, sought by the First National Bank of Boston, could total \$144 million.

In addition, there are several other tax cases pending which could result in significant refunds if taxpayers prevail. It is the policy of the Attorney General and the Commissioner of Revenue to defend such actions vigorously on behalf of the Commonwealth, and the descriptions that follow are not intended to imply that the Commissioner has conceded any liability whatsoever. Approximately \$80 million in taxes and interest in the aggregate are at issue in several other cases pending before the Appellate Tax Board or on appeal to the Appeals Court or the Supreme Judicial Court.

Eminent Domain. In *Spaulding Rehabilitation Hospital Corporation v. Massachusetts Highway Department* (Suffolk Superior Court No. 95-4360C), the Spaulding Rehabilitation Hospital filed an action to enforce an agreement to acquire its property by eminent domain, in connection with the Central Artery/Ted Williams Tunnel project. On March 13, 1998, the Superior Court entered judgment for the Commonwealth dismissing the complaint. The plaintiff has appealed the Superior Court's dismissal of the complaint. In December, 1999, the Spaulding Rehabilitation Hospital filed an eminent domain action concerning the same property. *Spaulding Rehabilitation Hospital Corp. v. Commonwealth* (Suffolk Superior Court No. 99-5733-E).

Thomas Rich v. Commonwealth of Massachusetts (Norfolk Superior Court No. 94-2319) and *Shea v. Commonwealth* (Norfolk Superior Court No. 97-1070-B) are eminent domain cases concerning property in the city of Quincy. *Thomas Rich* has been settled for \$6.2 million. In *Shea*, Commonwealth faces a potential liability of \$10 million. The cost of remediation of contaminated soil will also be an issue.

Patricia I. Barletta and John G. Bulman, as Trustees of the Vincent D. Barletta 1971 Trust v. Commonwealth (Worcester Superior Court C.A. No. 99-0657C). This case concerns a taking of land in Douglas, Massachusetts. On February 4, 2000, an agreement for judgment was filed for \$34,250,000.

Receivership. On January 4, 2000, the Attorney General, at the request of the Commissioner of Insurance, obtained a court order from the Massachusetts Supreme Judicial Court placing Harvard Pilgrim Health Care, Inc., Pilgrim Health Care, Inc. and Harvard Pilgrim Health Care of New England, Inc. (collectively, "HPHC") into temporary receivership. HPHC is one of the largest nonprofit managed care operations in the United States, providing care and coverage to more than 1.2 million members in New England, approximately 1.1 million of whom are Massachusetts residents. As the temporary receiver, the Insurance Commissioner has taken control of HPHC for the purpose of rehabilitating HPHC and conserving its assets. On January 17, 2000, the temporary receiver engaged an investment banker to identify and evaluate all viable options to recapitalize HPHC and ensure continuity of care and coverage to HPHC members, including a merger or other affiliation, a sale/leaseback or other leasing transaction, a third-party capital infusion or a sale. In the temporary receiver's first status report, submitted to the Supreme Judicial Court on January 28, 2000, the temporary receiver and the Attorney General proposed to continue the process of identifying and evaluating possible options to recapitalize HPHC and to report to the Court when a desirable approach is available. On March 3, 2000, the temporary receiver and the Attorney General submitted their second status report to the Supreme Judicial Court. The report summarizes the more significant steps taken in the prior month and proposes further action concerning HPHC. The report describes the continued stability of the situation, HPHC's "turnaround plan," HPHC's business plan for 2000 and possible options for the recapitalization of HPHC, including acquisition of the company and the sale of surplus notes. The report states that the temporary receiver and the Attorney General plan to present a plan of rehabilitation that recognizes the progress of HPHC's turnaround plan to date, does not require the infusion of additional cash and minimizes other effects of HPHC's creditors. While the receivership statute does not require state financial assistance, various health care providers and other interested parties have publicly discussed public participation in the resolution of this matter.

MISCELLANEOUS

Any provisions of the constitution of the Commonwealth, of all general and special laws and of other documents set forth or referred to in this Information Statement are only summarized, and such summaries do not purport to be complete statements of any of such provisions. Only the actual text of such provisions can be relied upon for completeness and accuracy.

All estimates and assumptions in this Information Statement have been made on the best information available and are believed to be reliable, but no representations whatsoever are made that such estimates and assumptions are correct. So far as any statements in this Information Statement involve any matters of opinion, whether or not expressly so stated, they are intended merely as such and not as representations of fact. The various tables may not add due to rounding of figures.

The information, estimates and assumptions and expressions of opinion in this Information Statement are subject to change without notice. Neither the delivery of this Information Statement nor any sale made pursuant to this Information Statement shall, under any circumstances, create any implication that there has been no change in the affairs of the Commonwealth or its agencies, authorities or political subdivisions since the date of this Information Statement, except as expressly stated.

CONTINUING DISCLOSURE

The Department of the State Auditor audits all agencies, departments and authorities of the Commonwealth at least every two years. Copies of audit reports may be obtained from the State Auditor, State House, Room 229, Boston, Massachusetts 02133.

The Commonwealth prepares its Statutory Basis Financial Report and its Comprehensive Annual Financial Report with respect to each fiscal year ending June 30. The Statutory Basis Financial Report becomes available by October 31 of the following fiscal year, and the Comprehensive Annual Financial Report becomes available in January of the following fiscal year. Copies of such reports and other financial reports of the Comptroller referenced in this document may be obtained by requesting the same in writing from the Office of the Comptroller, One Ashburton Place, Room 909, Boston, Massachusetts 02108. The financial statements are also available at the Comptroller's home page located at www.state.ma.us/osc.

On behalf of the Commonwealth, the State Treasurer will provide to each nationally recognized municipal securities information repository within the meaning of Rule 15c2-12 of the Securities and Exchange Commission, no later than 270 days after the end of each fiscal year of the Commonwealth, certain financial information and operating data relating to such fiscal year, as provided in said Rule 15c2-12, together with audited financial statements of the Commonwealth for such fiscal year. To date, the Commonwealth has complied with all of its continuing disclosure undertakings.

AVAILABILITY OF OTHER FINANCIAL INFORMATION

Questions regarding this Information Statement or requests for additional information concerning the Commonwealth should be directed to Jeffrey S. Stearns, Deputy Treasurer, Office of the Treasurer and Receiver-General, One Ashburton Place, 12th floor, Boston, Massachusetts 02108, telephone 617/367-3900 (x. 564), or to Paul E. Ladd, Assistant Secretary for Capital Resources and Chief Development Officer, Executive Office for Administration and Finance, State House, Room 373, Boston, Massachusetts 02133, telephone 617/727-2040. Questions regarding legal matters relating to this Information Statement should be directed to John R. Regier, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., One Financial Center, Boston, Massachusetts 02111, telephone 617/348-1720.

THE COMMONWEALTH OF MASSACHUSETTS

By /s/ Shannon P. O'Brien
Shannon P. O'Brien
Treasurer and Receiver-General

By /s/ Andrew S. Natsios
Andrew S. Natsios
Secretary of Administration and Finance

March 3, 2000

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MASSACHUSETTS BAY TRANSPORTATION AUTHORITY

Financial Statements

June 30, 1999 and 1998

(With Independent Auditors' Report Thereon)

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99 High Street
Boston, MA 02110-2371

Telephone 617 988 1000
Fax 617 988 0800

Independent Auditors' Report

The Board of Directors of the
Massachusetts Bay Transportation Authority:

We have audited the accompanying balance sheets of the Massachusetts Bay Transportation Authority (the "Authority"), a component unit of the Commonwealth of Massachusetts, as of June 30, 1999 and 1998, and the related statements of revenue and cost of service and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Massachusetts Bay Transportation Authority as of June 30, 1999 and 1998, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

The historical pension information on pages 30-31 is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of agreeing this information to the Authority's actuarial reports. However, we did not audit the information and express no opinion on it.

The Year 2000 supplementary information on page 32 is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board, and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because of the nature of the subject matter underlying the disclosure requirements and because sufficiently specific criteria regarding the matters to be disclosed have not been established. In addition, we do not provide assurance that the Authority is or will become Year 2000 compliant, that the Authority's Year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Authority does business are or will become Year 2000 compliant.

In accordance with *Government Auditing Standards*, we issued a report dated October 6, 1999 on our consideration of the Authority's internal control structure and on its compliance with laws and regulations.

KPMG LLP

October 6, 1999



KPMG LLP, KPMG LLP, a U.S. limited liability partnership, is
a member of KPMG International, a Swiss association.

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY

Balance Sheets

June 30, 1999 and 1998
(dollars in thousands)

Assets	1999	1998
Transportation property, at cost (notes 2, 7 and 11):		
Transportation property in service	\$ 7,571,628	7,259,618
Less accumulated depreciation	<u>1,991,406</u>	<u>1,783,136</u>
	<u>5,580,222</u>	<u>5,476,482</u>
Construction in progress	<u>482,960</u>	<u>515,039</u>
	<u>6,063,182</u>	<u>5,991,521</u>
Special funds, consisting of cash and short-term investments (notes 8 and 9):		
Settlement funds	—	2,724
Construction funds	17,045	4,587
Other special funds	<u>15,281</u>	<u>9,988</u>
	<u>32,326</u>	<u>17,299</u>
Restricted cash (notes 9 and 11)	401,732	398,025
Restricted investments (notes 9 and 11)	130,518	131,613
Net pension asset (note 10)	718	1,660
Deferred charges (note 2)	195,833	225,261
Current assets:		
Cash and temporary cash investments (note 9)	86,939	111,637
Accounts receivable, net:		
Commonwealth of Massachusetts (notes 2 and 3)	296,123	246,513
Other	20,112	45,202
Materials and supplies, at average cost	41,144	44,516
Prepaid expenses	<u>12,405</u>	<u>6,505</u>
Total current assets	<u>456,723</u>	<u>454,373</u>
 Total assets	 <u>\$ 7,281,032</u>	 <u>7,219,752</u>

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY

Balance Sheets

June 30, 1999 and 1998
(dollars in thousands)

Liabilities	<u>1999</u>	<u>1998</u>
Long-term liabilities, less current maturities:		
Bonds payable, net (note 6)	\$ 3,136,715	3,063,741
Other noncurrent obligations (note 6)	6,840	7,990
Obligations under capital leases (note 11)	524,177	522,426
Pension liability (note 10)	6,413	7,029
Total long-term liabilities	<u>3,674,145</u>	<u>3,601,186</u>
Unreimbursed cost of service (note 2)	(163,092)	(156,576)
Grants (notes 2 and 7):		
Federal grants	4,086,490	3,950,487
State and local grants	<u>112,863</u>	<u>118,019</u>
	4,199,353	4,068,506
Less accumulated amortization	<u>1,211,293</u>	<u>1,094,016</u>
	<u>2,988,060</u>	<u>2,974,490</u>
Commitments and contingencies (notes 2, 7, 11 and 12)		
Deferred credits (note 8)	28,867	35,898
Current liabilities:		
Current maturities of bonds payable (note 6)	99,287	94,509
Current capital lease and other current obligations (notes 6 and 11)	9,484	8,362
Short-term borrowings (note 6)	411,100	441,500
Accounts payable and accrued other	44,400	44,738
Accrued liabilities:		
Payroll and vacation (note 2)	33,047	29,859
Interest	65,445	64,781
Injuries and damage claims, workers' compensation claims and other (notes 2 and 12)	<u>90,289</u>	<u>81,005</u>
Total current liabilities	<u>753,052</u>	<u>764,754</u>
Total liabilities and unreimbursed cost of service	<u>\$ 7,281,032</u>	<u>7,219,752</u>

See accompanying notes to financial statements.

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY

Statements of Revenue and Cost of Service

For the years ended June 30, 1999 and 1998
(dollars in thousands)

	<u>1999</u>	<u>1998</u>
Operating revenue, not including local and federal assistance:		
Revenue from transportation	\$ 226,225	219,396
Other railway operations	<u>28,169</u>	<u>26,458</u>
	254,394	245,854
Operating expenses:		
Wages and related employee benefits:		
Wages	275,770	253,386
Medical and dental insurance (note 12)	56,156	55,115
Pensions (note 10)	36,406	36,056
Social security taxes	24,235	21,947
Workers' compensation (notes 2 and 12)	10,775	9,829
Other	3,300	3,032
Capitalized costs	<u>(15,883)</u>	<u>(16,843)</u>
	390,759	362,522
Other operating expenses:		
Depreciation and amortization (note 2)	220,744	192,874
Materials, supplies and services	94,633	75,265
Fuel	15,528	20,383
Injuries and damages (notes 2 and 12)	10,497	11,435
Commuter railroad and local subsidy expenses (note 5)	184,586	162,229
Other	<u>1,645</u>	<u>1,658</u>
	527,633	463,844
Total operating expenses	<u>918,392</u>	<u>826,366</u>
Operating loss	<u>(663,998)</u>	<u>(580,512)</u>
Nonoperating income (expense):		
Other income	2,241	717
Interest expense, net	(190,566)	(180,316)
Other expense	(340)	(1,505)
Gain on leveraged leases (note 11)	<u>—</u>	<u>33,136</u>
	(188,665)	(147,968)
Cost of service in excess of revenue	<u>(852,663)</u>	<u>(728,480)</u>
Contract assistance from the Commonwealth (note 3)	279,998	276,148
Federal assistance (note 4)	<u>12,584</u>	<u>2,926</u>
Cost of service in excess of revenue and contract assistance (note 2)	<u>(560,081)</u>	<u>(449,406)</u>
Reimbursed net cost of service - statutory basis (notes 2 and 3)	436,288	377,311
Grant amortization	<u>117,277</u>	<u>106,000</u>
Net decrease (increase) in unreimbursed cost of service	(6,516)	33,905
Beginning of year unreimbursed cost of service	<u>(156,576)</u>	<u>(190,481)</u>
End of year unreimbursed cost of service	<u>\$ (163,092)</u>	<u>(156,576)</u>

See accompanying notes to financial statements.

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY

Statements of Cash Flows

For the years ended June 30, 1999 and 1998
(dollars in thousands)

	<u>1999</u>	<u>1998</u>
Cash flows from operations:		
Cash provided by (used for):		
Cost of service in excess of revenue	\$ (852,663)	(728,480)
Charges to cost of service not requiring current expenditure of cash:		
Depreciation and amortization of deferred charges	217,415	190,562
Amortization of bond discount	3,329	2,312
Increase in accounts receivable from the Commonwealth of Massachusetts	(49,609)	(13,983)
Change in net pension asset/obligation	326	(2,193)
Changes in all other working capital accounts except cash, temporary cash investments and short-term debt	33,045	2,157
Net cash used for operations	<u>(648,157)</u>	<u>(549,625)</u>
Cash provided for operations and bond payments by:		
Reimbursement of net cost of service and contract assistance	716,286	653,460
Other reimbursements	12,584	2,927
Cash provided for operations and bond payments	<u>728,870</u>	<u>656,387</u>
Cash flows from capital and related financing activities:		
Cash used for:		
Additions to transportation property, net	(304,671)	(420,715)
Decrease in special funds	(490,038)	(765,938)
Decrease in deferred credits	(7,031)	(4,222)
Payments on long-term debt	(362,734)	(610,122)
Payments for capital leases	(8,327)	(15,558)
Payments on short-term borrowings	(441,500)	(368,500)
Net cash used for capital and related financing activities	<u>(1,614,301)</u>	<u>(2,185,055)</u>
Cash provided by:		
Grants from federal and other sources	130,846	148,990
Proceeds from short and long-term borrowings	891,713	1,164,907
Proceeds from capital leases	—	194,984
Increase in special funds	505,065	786,121
Cash provided by capital and related financing activities	<u>1,527,624</u>	<u>2,295,002</u>
Change in cash and temporary cash investments	(5,964)	216,709
Cash and temporary cash investments, beginning of year	<u>526,961</u>	<u>310,252</u>
Cash and temporary cash investments, end of year	<u>\$ 520,997</u>	<u>526,961</u>
Supplemental disclosure:		
Interest paid	<u>\$ 222,813</u>	<u>206,039</u>

See accompanying notes to financial statements.

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY

Notes to Financial Statements

June 30, 1999 and 1998
(dollars in thousands)

(1) The Reporting Entity

The Massachusetts Bay Transportation Authority (the "Authority") was created by a legislative act (the "Act") and is a political subdivision of the Commonwealth of Massachusetts (the "Commonwealth"). The Authority finances and operates mass transportation facilities within 78 cities and towns in the Greater Boston metropolitan area and to a limited extent outside this territory.

The Authority is managed by a board of seven directors. The State Secretary of the Executive Office of Transportation and Construction of the Commonwealth is the Chairman. The other six directors are appointed by the Governor of the Commonwealth. The directors have the power to appoint and employ a General Manager, subject to the approval of an Advisory Board. The Advisory Board consists of one representative from each of the cities and towns constituting the Authority and has certain powers provided by the Act, including the power to approve or limit the Authority's budget.

In accordance with the requirements of Statement No. 14, *The Financial Reporting Entity*, of the Governmental Accounting Standards Board (GASB), the financial statements must present the Authority (the primary government) and its component units. Pursuant to this criterion, no component units were identified for inclusion in the accompanying financial statements. The Authority's financial statements are incorporated into the financial statements of the Commonwealth as the Authority is a component unit of the Commonwealth.

(2) Summary of Significant Accounting Policies

(a) *Unreimbursed Cost of Service*

The Act under which the Authority was established provides, among other things, that the Commonwealth shall reimburse the Authority for its Net Cost of Service, as defined. This amount, to the extent it exceeds contract assistance (see note 3), is then assessed by the Commonwealth to the cities and towns in the Greater Boston metropolitan area constituting the Authority.

Cost of Service in Excess of Revenue and Contract Assistance presented in the accompanying Statements of Revenue and Cost of Service differs from the Reimbursed Net Cost of Service because the Authority follows generally accepted accounting principles (GAAP) for financial reporting purposes. For Reimbursed Net Cost of Service purposes, certain expenses are either not assessable, such as depreciation, or, in the instance of certain accrued costs, are not reported until paid by the Authority. The following table reconciles the Authority's Cost of Service in Excess of Revenue and Contract Assistance - GAAP Basis to its Reimbursed Net Cost of Service - Statutory Basis, as reported for the years ended June 30, 1999 and 1998:

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY

Notes to Financial Statements

June 30, 1999 and 1998
(dollars in thousands)

	<u>1999</u>	<u>1998</u>
Cost of service in excess of revenue and contract assistance - GAAP basis	\$ (560,081)	(449,406)
Depreciation and amortization	220,744	192,874
Bond principal payments reimbursable by the Commonwealth	(101,472)	(97,927)
Change in other accrued expenses not reimbursable by the Commonwealth until paid by the Authority	<u>4,521</u>	<u>(22,852)</u>
Reimbursed net cost of service - statutory basis	\$ <u>(436,288)</u>	<u>(377,311)</u>

(b) *Accounting Periods*

The Authority's financial statements are presented on a fiscal year basis (July 1 - June 30). These amounts will not agree with amounts reported to the Commonwealth in its Net Cost of Service for reimbursement and assessment purposes, as those amounts are determined on a calendar year basis (January 1 - December 31).

(c) *Transportation Property*

Transportation property is stated at historical cost. These costs include the Authority's labor costs for employees working on capital projects, related fringe benefits, and an allocated share of general and administrative costs.

(d) *Depreciation*

Depreciation is provided on the straight-line method at rates that are designed to amortize the original cost of the property over its estimated useful life. The major categories of transportation property in service and their estimated useful lives are as follows at June 30:

	<u>Estimated useful life</u>	<u>1999</u>	<u>1998</u>
Ways and Structure	10-60 years	\$ 5,643,811	5,367,755
Equipment	3-25 years	1,725,575	1,689,621
Land	—	<u>202,242</u>	<u>202,242</u>
		\$ <u>7,571,628</u>	<u>7,259,618</u>

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY

Notes to Financial Statements

June 30, 1999 and 1998

(dollars in thousands)

(e) *Construction in Progress*

During 1999, major construction projects aggregating \$316,151 were completed and transferred to the appropriate transportation property accounts. Major projects included transit service extensions, right of way improvements and extensions and purchases of new rolling stock and other equipment.

(f) *Deferred Charges*

The Authority defers the cost associated with certain liabilities rather than recording an expense in the period during which such liabilities are incurred. These deferred costs will be charged to expense in the period in which the Commonwealth reimburses the Authority. The items for which costs have been deferred include but are not limited to:

- *Workers' Compensation*

The Authority is entirely self-insured for settlements of workers' compensation claims. Included in accrued liabilities in the accompanying balance sheets is an accrual for claims including an estimate of claims incurred but not paid or reported as of year-end. The Authority includes amounts for workers' compensation in its Statements of Revenue and Cost of Service only to the extent that claims are reimbursed by the Commonwealth. Accordingly, a deferred charge has been established in an amount equal to the outstanding claims liability of approximately \$40,500 and \$33,000 as of June 30, 1999 and 1998, respectively.

- *Compensated Absences*

The Authority accrues for vested vacation pay when it is earned but recognizes the expense in the Statements of Revenue and Cost of Service in the period that vacation pay is paid to employees and reimbursed by the Commonwealth. The amount of vested vacation pay accrued as of June 30, 1999 and 1998 and included in deferred charges was approximately \$13,944 for both years.

- *Injuries and Damages*

An estimated loss for injuries and damages of approximately \$30,800 and \$34,800 is recorded in the accompanying balance sheets at June 30, 1999 and 1998, respectively, as a liability. The liability represents an estimate of reported claims, and incurred but not reported claims to be paid by the Authority in the future. An equivalent amount has been recorded as a deferred charge rather than as a charge to the Statements of Revenue and Cost of Service since the Authority will be reimbursed by the Commonwealth in the future when such claims are actually paid.

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY

Notes to Financial Statements

June 30, 1999 and 1998
(dollars in thousands)

(g) *Casualty and Liability Costs*

The Authority is engaged in numerous matters of routine litigation which include torts and other claims for injuries and damages. The Authority is self-insured for the first \$5,000 in payments on a per accident basis. In September 1998, the Authority renewed its program of excess public liability insurance to provide for \$70,000 of layered coverage on a per-accident basis. In the opinion of the General Counsel to the Authority, payments of claims by the Authority for amounts not covered by insurance, in the aggregate, are not expected to have a material adverse effect on the Authority's financial position.

Other cases and claims include disputes with contractors and others arising out of the Authority's capital construction program. In the opinion of the General Counsel to the Authority, amounts reasonably expected to be paid by the Authority would be within the scope of grant funds and other funds available to the Authority for the respective projects.

(h) *Grants*

The Authority receives capital grants from certain governmental agencies to be used for various purposes connected with the planning, modernization and expansion of transportation facilities and equipment. Amortization of these grants begins when the related facilities and equipment are put into service. The grants are then amortized over the shorter of the estimated useful life of the assets or 40 years. The amortization is reflected as a reduction of the unreimbursed cost of service.

The Authority also receives grants from the Commonwealth and the federal government to fund its operating deficits (see notes 2a and 3).

(i) *Statements of Cash Flows*

For purposes of the statements of cash flows, the Authority considers all highly liquid investments purchased with a maturity of six months or less to be temporary cash investments.

(j) *Financial Reporting*

Under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Government Entities that Use Proprietary Fund Accounting*, the Authority has adopted the option to apply only those Financial Accounting Standards Board (FASB) statements and interpretations issued before November 30, 1989, that do not conflict with or contradict GASB pronouncements. All GASB pronouncements issued after this date will be followed.

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY

Notes to Financial Statements

June 30, 1999 and 1998
(dollars in thousands)

(k) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

(l) Reclassifications

Certain amounts in the 1998 financial statements have been reclassified to conform to the 1999 presentation.

(3) Contract Assistance from the Commonwealth

The Authority is reimbursed for its Net Cost of Service by the Commonwealth. A portion of this reimbursement is provided specifically in the form of contract assistance for debt service and operating lease payments. The Commonwealth assesses a portion of Net Cost of Service, after reimbursement for debt service and operating lease payments, to the cities and towns constituting the Authority, up to the legislated limit. The amount to be assessed by the Commonwealth for a calendar year to the cities and towns comprising the Authority is limited to 102-1/2% of the amount assessed (including state borrowing charges) in the previous calendar year. Contract assistance from the Commonwealth for fiscal years 1999 and 1998 is summarized as follows:

(a) Debt Service and Operating Lease Assistance

The legislative act authorizing the Authority to issue debt securities provides for contract assistance for the payment of annual debt service costs on bonds issued by the Authority as follows: on bonds issued prior to January 1, 1971, the Authority is eligible for contract assistance on debt service at either 50% or 90%, as provided by contract; on bonds and bond anticipation notes issued after January 1, 1971, the Authority is eligible for contract assistance on debt service at 90%. However, regardless of when the bonds were issued, contract assistance, under the current statute, will not be available on debt service of more than \$4,272,208 of bonds outstanding at any one time. Additionally, the Authority receives a maximum of \$3,000 annually for debt service relating to Boston Metropolitan District (BMD) debt. The Authority is also eligible for 90% contract assistance on operating lease payments. The Authority was eligible for contract assistance of \$263,094 in fiscal 1999 and \$259,170 in fiscal 1998 relating to debt service and operating leases.

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY

Notes to Financial Statements

June 30, 1999 and 1998
(dollars in thousands)

(b) Operating Assistance

The Authority's Net Cost of Service reimbursable by the Commonwealth, after deducting debt service and commuter rail operations contract assistance, and federal operating assistance, is \$436,288 for fiscal 1999 and \$377,311 for fiscal 1998.

Contract assistance for commuter rail service outside the Authority's district is provided by statute each year. Contract assistance for commuter rail service amounted to \$13,904 and \$13,978 in fiscal years 1999 and 1998, respectively (see note 5).

(4) Federal Operating Assistance

The Transportation Equity Act of the 21st Century was passed in May 1998 which provides for capital, operating and preventative maintenance grants. Federal operating assistance for preventative maintenance was \$12,584 and \$2,926 in 1999 and 1998, respectively.

(5) Commuter Railroad and Local Subsidy

Under General Laws, Chapter 161A, Section 3(f) of the Commonwealth of Massachusetts, the Authority may enter into agreements with private transportation companies, railroads and other concerns providing for joint or cooperative operation of any mass transportation facility and for operation and use of any mass transportation facility and equipment for the account of the Authority.

On September 1, 1995, the Authority entered into an operating agreement with the National Railroad Passenger Corporation ("AMTRAK") to provide commuter railroad service over the Authority's rail lines. The Authority has agreed to pay AMTRAK a fixed price per year for the services specified in the agreement. The agreement terminated on June 30, 1998 and contained two one-year options for renewal. The Authority has exercised its second option year through June 30, 2000. Effective March 2000, the service and repair functions of the operating agreement will be handled by Baystate Transit Services, a joint venture comprised of Boise Locomotive and Herzog.

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY

Notes to Financial Statements

June 30, 1999 and 1998
(dollars in thousands)

(6) Short-Term Borrowings and Long-Term Debt

(a) Short-Term Borrowings

Short-term notes payable outstanding at June 30, 1999, mature as follows:

<u>Due date</u>	<u>Interest rate</u>	<u>Principal amount</u>
September 3, 1999	4.25%	\$ 160,000
February 25, 2000	3.50%	<u>165,000</u>
		\$ <u>325,000</u>

The Authority issues commercial paper from time to time to act as temporary financing for capital expenditures. As of June 30, 1999 and 1998, there was \$86,100 and \$116,500, respectively, of commercial paper outstanding.

On September 2, 1999, the Authority issued \$160,000 of notes carrying an interest rate of 4.25%, maturing on September 1, 2000. The proceeds of the note will be used by the Authority to repay notes maturing on September 3, 1999.

(b) Bonds

General Transportation System Bonds issued under General Laws, Chapter 161A, Section 23 of the Commonwealth of Massachusetts, are all payable in annual installments on March 1st; interest is payable semi-annually on March 1st and September 1st. The bonds were issued to provide funds for the financing of the Authority's transportation property.

Boston Metropolitan District Bonds ("BMD") were issued for transit purposes prior to the formation of the Massachusetts Bay Transportation Authority in 1964. For all BMD issues, bond principal payments are less than or equal to the amount reimbursed by the Commonwealth. Bonds outstanding are as follows:

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY

Notes to Financial Statements

June 30, 1999 and 1998
(dollars in thousands)

<u>Description</u>	<u>Year of maturity</u>	<u>Average interest rate</u>	<u>June 30,</u>	
			<u>1999</u>	<u>1998</u>
General Transportation System Bonds:				
1967 Series A Bonds dated March 1, 1967	2007	3.85%	\$ 20,800	23,400
1974 Series A Bonds dated June 1, 1974	2014	6.11	26,400	28,200
1977 Series A Bonds dated Sept. 1, 1977	2017	6.00	2,360	31,190
1984 Series A Variable Interest Rate Bonds dated November 1, 1984	2014	—	—	68,965
1987 Series A Bonds dated March 1, 1987	2017	5.90	1,275	2,480
1987 Series B Refunding Bonds dated March 1, 1987	2006	—	—	12,080
1988 Series A Bonds dated March 15, 1988	2013	—	—	3,355
1989 Series A Bonds dated May 15, 1989	2014	—	—	10,535
1990 Series A Bonds dated April 1, 1990	2015	7.18	12,215	17,720
1990 Series B Bonds dated December 1, 1990	2021	7.60	7,965	11,535
1991 Series A Bonds dated November 15, 1991	2021	6.89	90,240	94,725
1992 Series A Bonds dated October 1, 1992	2022	5.53	6,815	11,820
1992 Series B Refunding Bonds dated December 1, 1992	2021	5.95	355,880	367,100
1992 Series C Bonds dated November 15, 1992	2023	5.88	26,875	36,010
1993 Series A Refunding Bonds dated June 1, 1993	2022	5.31	481,245	489,810
1994 Series A Refunding Bonds dated June 1, 1994	2019	6.10	320,650	328,590
1994 Series B Bonds dated June 1, 1994	2024	5.16	24,000	44,710
1995 Series A Bonds dated April 1, 1995	2025	5.70	158,415	169,390
1995 Series B Bonds dated September 15, 1995	2025	5.23	147,710	190,395
1996 Series A Bonds dated March 1, 1996	2026	5.14	60,290	113,220
1996 Series B Bonds dated October 1, 1996	2026	5.22	151,340	193,985
1997 Series A Bonds dated June 1, 1997	2027	5.04	172,940	191,420
1997 Series B Bonds dated August 1, 1997	2014	4.91	9,890	10,335
1997 Series C Bonds dated August 1, 1997	2024	5.07	244,105	257,640
1997 Series D Bonds dated November 1, 1997	2027	5.10	160,375	197,090

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Notes to Financial Statements

June 30, 1999 and 1998
(dollars in thousands)

<u>Description</u>	<u>Year of maturity</u>	<u>Average interest rate</u>	<u>June 30,</u>	
			<u>1999</u>	<u>1998</u>
1998 Series A Bonds dated February 15, 1998	2026	4.81	\$ 305,030	305,030
1998 Series B Bonds dated November 1, 1998	2028	5.01	200,000	—
1998 Series C Bonds dated November 1, 1998	2022	5.39	257,715	—
1999 Series A Variable Interest Rate Bonds dated June 29, 1999	2014	3.11	<u>66,385</u>	<u>—</u>
Total General Transportation System Bonds payable			<u>3,310,915</u>	<u>3,210,730</u>
Boston Metropolitan District Bonds:				
Boston Elevated Railway Company and Metropolitan Transit Authority Debt	2021	5.80	<u>20,686</u>	<u>21,881</u>
Purchase of City of Boston Transit Properties	2025	5.47	<u>9,267</u>	<u>10,041</u>
Construction Bonds	2002	4.46	2,300	2,875
Construction Bonds	2008	3.69	<u>3,950</u>	<u>4,195</u>
			<u>6,250</u>	<u>7,070</u>
Total Boston Metropolitan District Bonds payable			<u>36,203</u>	<u>38,992</u>
Total bonds payable			3,347,118	3,249,722
Less: current maturities of bonds payable			<u>99,287</u>	<u>94,509</u>
Total long-term bonds payable			3,247,831	3,155,213
Less: unamortized discount			42,201	50,952
unamortized losses on refundings			<u>68,915</u>	<u>40,520</u>
Total long-term bonds payable, net			\$ <u>3,136,715</u>	<u>3,063,741</u>

Approximate annual maturities of long-term bonds payable as of June 30, 1999 are as follows:

2000	\$ 99,287
2001	109,556
2002	112,699
2003	120,821
2004	124,495
Thereafter	<u>2,780,260</u>
Total	\$ <u>3,347,118</u>

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY

Notes to Financial Statements

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(dollars in thousands)

In prior years, the Authority defeased in-substance several General Transportation System Bonds by placing the proceeds of new bonds in an irrevocable trust fund to provide for future debt service payments on the old debt. Accordingly, the trust account asset and the liability for the defeased bonds are not included in the accompanying financial statements. On June 30, 1999, \$2,041,720 of these bonds, considered defeased in-substance, are still outstanding.

On November 1, 1998, the Authority issued \$460,240 in General Transportation System Bonds (1998 B&C). The 1998 Series B new issue bonds (\$200,000) carry an average interest rate of 5.01%. The 1998 Series C Refunding Bonds (\$260,240) carry an average interest rate of 5.39%. The 1998 Series B will be used to finance the Authority's share of the costs of projects in the Authority's capital improvement program, including the payment of bond anticipation notes, the proceeds of which were used to finance such costs. The Series C bond proceeds will be applied to refund the following bonds on a current and advance funding basis: a portion of 1977 Series A, 1987 Series B Refunding, 1989 Series A, 1992 Series A, 1992 Series B Refunding, 1992 Series C, 1993 Series A Refunding, 1994 Series B, 1995 Series A, 1995 Series B, 1996 Series A, 1996 Series B, 1997 Series A, and 1997 Series D. These proceeds were used to purchase United States government securities and were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds.

The refunding resulted in an accounting loss on the extinguishment of \$21,210 and is included in deferred charges and amortized over the life of the refunded bonds. The total difference in cash flows between the refunded bonds and the 1998 Series C Bond is approximately \$8,193, and the economic gain is \$7,819.

(c) *1999A Variable Rate Debt Offering (VRDO)*

On June 29, 1999, the Authority issued \$66,385 in General Transportation System Bonds (1999A) carrying a Variable Interest Rate. The bonds mature in 2014 and will be used to refund the 1984 Refunding Bonds on a current and advance refunding basis. These proceeds were used to purchase United States government securities and were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds.

The refunding resulted in an accounting gain on the extinguishment of \$110. The difference in cash flows between the refunded bonds and the 1999 A VRDO Bonds is not material.

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Notes to Financial Statements

June 30, 1999 and 1998

(dollars in thousands)

The Act under which the Authority was established provides that, if at any time any principal or interest is due on any bond or note issued or assumed by the Authority and funds to pay the same are not available, the Commonwealth shall thereupon remit to the Authority the amount required to meet such obligations.

(d) *Certificates of Participation*

The Authority issued Certificates of Participation (COPs) of \$28,565 on December 15, 1988 and \$85,795 on August 30, 1990. For purposes of reporting under generally accepted accounting principles, the long-term portion of these COPs have been classified as "Other noncurrent obligations" in the accompanying balance sheets, for \$6,840 and \$7,990 at June 30, 1999 and 1998, respectively. Under the terms of the agreement covering the COPs, the Authority's obligation to make annual payments on the COPs is subject to the Commonwealth's appropriating the necessary funds in the Authority's annual budget. If appropriated, the future debt service payments on the COPs would be 90% reimbursable.

Of the August 1, 1997 General Transportation System Bond issue, \$10,765 was used to advance refund \$9,075 of outstanding COPs. These proceeds were used to purchase United States government securities and were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded COPs.

The remaining outstanding principal balance of COPs that were refunded in-substance in prior years is \$9,890 at June 30, 1999.

The remaining COPs outstanding bear interest at rates ranging from 7.3% to 7.8% and mature as follows:

2000	\$ 1,150
2001	1,150
2002	1,140
2003	1,140
2004	1,140
Thereafter	<u>2,270</u>
	7,990
Less: Current maturities	<u>1,150</u>
Total long-term COPs payable	\$ <u><u>6,840</u></u>

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY

Notes to Financial Statements

June 30, 1999 and 1998
(dollars in thousands)

(7) Capital Improvement Program

The Authority's continuing program for mass transportation development has projects in service and in various stages of approval, planning and implementation. The following table shows, as of June 30, 1999, capital project costs approved, expenditures against these projects, and estimated costs to complete these projects, as well as the major funding sources:

<u>Funding source</u>	<u>Approved project costs</u>	<u>Expenditures through June 30, 1999</u>	<u>Unexpended costs</u>
Federal Grants	\$ 3,114	2,902	212
State and Local Sources	594	594	—
Authority Bonds	<u>3,700</u>	<u>3,383</u>	<u>317</u>
Total	\$ <u>7,408</u>	<u>6,879</u>	<u>529</u>

The Authority is presently authorized by law to issue bonds for capital purposes other than refunding, to an amount not exceeding \$5,068,130 outstanding at any time, provided, however, that any bonds that mature or are redeemed on or after January 1, 1993, may not be reissued. Such bonds outstanding as of June 30, 1999, amounted to \$2,507,722.

The terms of the federal grant contracts requires the Authority to, in part, utilize the equipment and facilities for the purposes specified in the grant agreement, maintain these items in operation for a specified time period, which normally approximates the useful life of the equipment, and to comply with the Equal Employment Opportunity and Affirmative Action programs required by the Transportation Equity Act for the 21st Century. Failure to comply with these terms may jeopardize future funding and require the Authority to refund a portion of these grants to the Federal Department of Transportation. In management's opinion, no events have occurred that would result in the termination of these grants or require the refund of a significant amount of funds received under these grants.

The Authority has entered into several long-term contracts to purchase coaches, locomotives and rapid transit cars. Unpaid amounts under these contracts total approximately \$122,120 at June 30, 1999.

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY

Notes to Financial Statements

June 30, 1999 and 1998
(dollars in thousands)

(8) Deferred Credits

Settlement funds on the accompanying balance sheets represent proceeds plus interest related to a previous litigation settlement. These funds have been recorded as a deferred credit in the 1998 balance sheet and were used to make additional capital improvements to the Authority's rail lines or to make lease payments on certain light rail vehicles. As of June 30, 1999, the funds have been spent. The deferred credit is being amortized over a period of 15 years.

(9) Deposits and Investments

The Authority is authorized by its Board of Directors to make deposits into checking and savings accounts and to invest in direct obligations of the U.S. Treasury, its agencies and instrumentalities, brokers' acceptances, and repurchase agreements secured by U.S. government and agency obligations. The Authority adopted Governmental Accounting Standards Board Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Restricted investments are recorded at fair value beginning in fiscal year 1998. Other investments are recorded at amortized cost, which approximates market, and earn interest and dividends at prevailing rates. These investments are short-term and are not subject to the provisions of Statement 31.

Unrestricted deposits and investments consisted of the following amounts presented in the accompanying balance sheets at June 30:

	<u>1999</u>	<u>1998</u>
Settlement funds	\$ —	2,724
Construction funds	17,045	4,587
Other special funds	15,281	9,988
Cash and temporary cash investments	<u>86,939</u>	<u>111,637</u>
	\$ <u>119,265</u>	<u>128,936</u>

(a) Deposits

The Authority's deposits are categorized as those that are fully insured or collateralized with securities held by the Authority or its agent in the Authority's name (Category 1), those deposits that are collateralized with securities held by the pledging financial institution's trust department or agent in the Authority's name (Category 2), and those deposits that are not collateralized (Category 3). Managed investment pools are not categorized.

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY

Notes to Financial Statements

June 30, 1999 and 1998
(dollars in thousands)

A summary of these deposits as of June 30, 1999 and 1998 is as follows:

1999					
	Category			Total bank balance	Carrying amount
	1	2	3		
Cash and cash equivalents	\$ 400	—	55,325	55,725	55,497
Not categorized:					
Mass Municipal Depository Trust	—	—	—	3,600	3,600
	<u>\$ 400</u>	<u>—</u>	<u>55,325</u>	<u>59,325</u>	<u>59,097</u>
1998					
	Category			Total bank balance	Carrying amount
	1	2	3		
Cash and cash equivalents	\$ 500	—	83,441	83,941	77,806
Not categorized:					
Mass Municipal Depository Trust	—	—	—	11,721	11,721
	<u>\$ 500</u>	<u>—</u>	<u>83,441</u>	<u>95,662</u>	<u>89,527</u>

In 1999, outstanding checks largely account for the difference between the balance and carrying amount of deposits. The Authority's maximum amount of uninsured deposits was approximately \$96,149 during fiscal 1999 and \$227,422 during fiscal 1998 due to the timing of cash receipts. The Authority's cash on hand as of June 30, 1999 was \$1,443 and as of June 30, 1998 was \$1,449. These amounts were not included in the above totals.

(b) Investments

The Authority's investments are categorized according to the level of risk assumed by the Authority. Category 1 includes investments that are insured, registered or held by a trustee in the Authority's name. Category 2 includes uninsured and unregistered investments held by the counterparty's trust department or agent in the Authority's name. Category 3 includes uninsured or unregistered investments held by the counterparty, its trust department or agent but not in the Authority's name.

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY

Notes to Financial Statements

June 30, 1999 and 1998
(dollars in thousands)

A summary of these investments as of June 30, 1999 and 1998 is as follows:

	1999			Estimated fair value
	Category			
	1	2	3	
U.S. government obligations	\$ 638	—	—	638
Commercial paper	—	39,929	—	39,929
Repurchase agreements	—	15,000	—	15,000
Certificates of deposit	—	—	3,158	3,158
	\$ <u>638</u>	<u>54,929</u>	<u>3,158</u>	<u>58,725</u>
	1998			Estimated fair value
	Category			
	1	2	3	
U.S. government obligations	\$ 1,921	—	—	1,921
Commercial paper	—	33,947	—	33,947
Certificates of deposit	—	—	3,379	3,379
	\$ <u>1,921</u>	<u>33,947</u>	<u>3,379</u>	<u>39,247</u>

The maximum amount of the Authority's investment in commercial paper and repurchase agreements was approximately \$72,756 during fiscal 1999 and \$75,000 during fiscal 1998. These amounts vary during the year due to the timing of cash receipts. U.S. government and agency obligations that secure the repurchase agreements are held by the broker's agent in a safe-keeping account on behalf of the Authority, but such obligations do not bear the Authority's name.

(c) *Restricted Cash and Investments*

The Authority's restricted cash and investments are categorized according to the level of risk assumed by the Authority. Category 1 includes those deposits that are fully insured or collateralized with securities held by the Authority or its agent in the Authority's name, Category 2 includes those deposits that are collateralized with securities held by the pledging financial institution's trust department or agent in the Authority's name, and Category 3 which includes those deposits that are not collateralized.

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY

Notes to Financial Statements

June 30, 1999 and 1998
(dollars in thousands)

A summary of these deposits as of June 30, 1999 and 1998 is as follows:

1999				Estimated fair value
Category				
1	2	3		
Cash and cash equivalents	\$ 138,392	—	263,339	401,732
Municipal bond obligations	—	13,909	—	13,908
U.S. government obligations	<u>116,610</u>	<u>—</u>	<u>—</u>	<u>116,610</u>
	<u>\$ 255,002</u>	<u>13,909</u>	<u>263,339</u>	<u>532,250</u>
1998				Estimated fair value
Category				
1	2	3		
Cash and cash equivalents	\$ 138,084	—	259,941	398,025
Municipal bond obligations	—	17,955	—	17,955
U.S. government obligations	<u>113,658</u>	<u>—</u>	<u>—</u>	<u>113,658</u>
	<u>\$ 251,742</u>	<u>17,955</u>	<u>259,941</u>	<u>529,638</u>

The amounts are restricted to pay the obligations under capital leases.

(10) Retirement Plans

The Authority provides retirement benefits to employees through three defined benefit retirement plans and one defined contribution plan: The MBTA Retirement Plan, the MBTA Police Association Plan, the MBTA Deferred Compensation Plan and the MBTA Deferred Compensation Savings Plan. The Authority also provides supplemental pension benefits after retirement.

The MBTA Retirement Plan, a single-employer plan, covers all employees except the MBTA police, who are covered separately, and those executives who elect coverage under an alternate plan. This retirement plan and the MBTA Police Association Plan provide retirement, disability and death benefits. Both plans issue a publicly available financial report that includes financial statements and required supplementary information for that plan. The MBTA Retirement Plan report may be obtained by writing to 99 Summer Street, Suite 1700, Boston, MA 02110, or by calling (617) 222-5266. The MBTA Police Association Plan may be obtained by writing to P.O. Box 6807, Boston, MA 02102 or by calling 1-800-281-0063.

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Notes to Financial Statements

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(dollars in thousands)

The MBTA Deferred Compensation Plan provides supplemental pension benefits for certain executive and Local 453 (collective bargaining unit) employees after retirement. Employees may participate in both the MBTA Retirement Plan and the MBTA Deferred Compensation Plan.

(a) *Funding Policy and Annual Pension Cost*

The Board of Trustees of each plan establishes the contribution requirements; however, the Authority may amend these requirements. The MBTA Retirement Plan requires members to contribute 4% with the Authority currently paying an amount equal to approximately 10.53% of total payroll. The actuarial required contribution rate for the Authority was 10.45%. The contribution requirements for the Police Association Plan of 11.03% for the Authority and 4.17% for employees were determined in accordance with actuarial valuations. Actual contributions made to this Plan in 1999 were in accordance with these contribution requirements. Deferred Compensation contributions are made on a "pay-as-you-go" basis. The Authority's annual pension cost for the current year and related information for each plan is as follows:

	MBTA Retirement <u>Plan</u>	MBTA Police Association <u>Plan</u>	MBTA Deferred Compensation <u>Plan</u>
Annual pension cost - Authority	\$ 27,954	\$ 723	\$ 2,596
Contributions made - Authority	\$ 26,847	\$ 887	\$ 3,212
Actuarial valuation date/update	6/30/99	6/30/99	7/1/98
Actuarial cost method	Entry age	Entry age	Entry age
Amortization method	Level dollar	Level dollar	Level dollar
Amortization period remaining	37 years	16 years	37 years
Asset valuation method average	5 year moving	Market value	None
Actuarial assumptions:			
Interest rate	7.25%	7%	8%
Projected salary increases	5%	5.5%	5%

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY

Notes to Financial Statements

June 30, 1999 and 1998
(dollars in thousands)

(b) *Three Year Trend Information*

	<u>Year ending</u>	<u>Annual pension cost (APC)</u>	<u>Percentage of APC contributed</u>	<u>Net pension asset (obligation)</u>
MBTA Retirement Plan				
	12/31/95	\$ 30,019	100%	—
	12/31/96	31,090	100%	—
	6/30/98	30,795	104%	1,660
	6/30/99	27,954	96%	553
MBTA Police Association Plan				
	12/31/96	\$ 782	100%	—
	6/30/98	954	100%	—
	6/30/99	723	123%	164
MBTA Deferred Compensation Plan				
	7/1/96	2,621	112%	(7,888)
	7/1/97	2,610	120%	(7,562)
	7/1/98	2,596	124%	(7,029)

The Authority's net pension obligation for the Deferred Compensation Plan at June 30, 1999 was \$6,413.

(c) *The MBTA Deferred Compensation Savings Plan*

The Authority provides a defined contribution retirement plan for nonunion management not participating in the MBTA Retirement Plan. Authority employee trustees administer the Plan and recommend benefit amendments which require approval from the Authority's General Manager. The Plan requires members to contribute 4% of total covered payroll with the Authority contributing 8%. The Plan has approximately 285 members at June 30, 1999, and the cost of the Plan to the Authority was \$821 for fiscal year 1999. Member contributions vest to Plan members immediately, while contributions made by the Authority vest to Plan members as follows: 50% after three years; 75% after four years; and 100% after five years of credited service.

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY

Notes to Financial Statements

June 30, 1999 and 1998
(dollars in thousands)

(d) Other Post-Employment Benefits

The Authority pays 100% of health insurance to retired employees eligible under the Deferred Compensation Savings Plan, MBTA Retirement Plan and MBTA Police Association Plan. These benefits are expensed on a current (pay-as-you-go) basis. There are approximately 6,000 retired employees eligible to receive post-retirement benefits at June 30, 1999. The cost of these benefits was approximately \$25,233 in fiscal 1999 and approximately \$22,998 in fiscal 1998.

(11) Lease Obligations

(a) Lease-in/Lease-out

In fiscal 1996, the Authority entered into two lease/sublease arrangements (collectively "Agreement I"), with Fleet Bank for a total of 40 heavy rail and 27 commuter rail cars. Agreement I provides for the lease of the equipment owned by the Authority to a financial party lessee and the sublease of such equipment back to the Authority for a period of approximately 18 years commencing April 1996. At the time of the transaction, the Authority deposited funds with a financial institution sufficient to meet all of its payment obligations under the terms of the lease and acquired United States Treasury Strips which would mature to an amount sufficient to satisfy each agreement's purchase of the Head Lease Rights option. The present value of the remaining rents and the purchase of the Head Lease Rights option is approximately \$92,189 at June 30, 1999. Because this transaction does not meet the criteria for an "in-substance defeasance," the funds on deposit, United States Treasury Strips, and the related lease liability have been included in the accompanying financial statements.

In fiscal 1997, the Authority entered into four lease/sublease arrangements (collectively "Agreement II"), with Fleet Bank for a total of 50 heavy rail and 64 commuter rail cars. Agreement II provides for the lease of the equipment owned by the Authority to a financial party lessee and the sublease of such equipment back to the Authority for a period of approximately 14 years commencing January 1997. At the time of the transaction, the Authority deposited funds with a financial institution sufficient to meet all of its payment obligations under the terms of the lease and acquired United States Treasury Strips which would mature to an amount sufficient to satisfy each agreement's purchase of the Head Lease Rights option. The present value of the remaining rents and the purchase of the Head Lease Rights option is approximately \$74,318 at June 30, 1999. Because this transaction does not meet the criteria for an "in-substance" defeasance, the funds on deposit, United States Treasury Strips, and the related lease liability have been included in the accompanying financial statements.

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY

Notes to Financial Statements

June 30, 1999 and 1998
(dollars in thousands)

In fiscal 1998, the Authority entered into five lease/sublease arrangements (collectively "Agreement III"), with Wilmington Trust Company for a total of 66 heavy rail and 8 commuter rail cars. Agreement III provides for the lease of the equipment owned by the Authority to a financial party lessee and the sublease of such equipment back to the Authority for a period ranging from approximately 10 to 16 years commencing August 1997. At the time of the transaction, the Authority deposited funds with a financial institution sufficient to meet all of its payment obligations under the terms of the lease and acquired United States Treasury Strips which would mature to an amount sufficient to satisfy each agreement's purchase of the Head Lease Rights option. The fair value of equipment under lease is approximately \$120,711. The present value of the remaining rents and the purchase of the Head Lease Rights option is approximately \$105,212 at June 30, 1999. Because this transaction does not meet the criteria for an "in-substance" defeasance, the funds on deposit, the United States Treasury Strips, and the related lease liability have been included in the accompanying financial statements. The Authority has recorded a gain on this lease-in/lease-out transaction of \$7,341 in 1998.

In fiscal 1998, the Authority entered into a lease/sublease arrangement ("Agreement IV") with Wilmington Trust Company for the Boston Engine Terminal (BET), a repair facility for the Authority's commuter rail rolling stock fleet. Agreement IV provides for the lease of the facility owned by the Authority to a financial party lessee and sublease of the equipment back to the Authority for a period of approximately 20 years commencing May 1998. The fair market value of the facility under lease is \$228,000. The present value of the remaining rents and purchase of the Head Lease Rights option is approximately \$181,693 at June 30, 1999. At the time of the transaction, the Authority deposited funds with a financial institution and acquired United States Treasury Strips which would mature to an amount sufficient to satisfy the payment of the Head Lease Rights option. Because this transaction does not satisfy the criteria for an "in-substance" defeasance, the funds on deposit, the United States Treasury Strips, and the related lease liability have been included in the accompanying financial statements. The Authority has recorded a gain on this lease-in/lease-out transaction of \$25,795 in 1998.

(b) Cross Border Leases

In fiscal 1996, the Authority entered into two cross-border leases for a total of 150 buses with JL Charles Lease Co., LTD. (JLC), a corporation formed under the laws of Japan. The leases provide for the Authority to sell and lease back the buses over a period of eight years. There is a bargain purchase option at the end of the lease term. The present value of the minimum lease payments approximates \$53,930 at June 30, 1999. The Authority has deposited funds with financial institutions sufficient to meet all of its payment obligations under the terms of the leases.

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY

Notes to Financial Statements

June 30, 1999 and 1998
(dollars in thousands)

On September 27, 1998, JLC filed for a voluntary petition seeking rehabilitation due to difficulties in obtaining financial support from major financial institutions. JLC has not defaulted on any of its loans, and the Authority's management does not anticipate any significant adverse effects to the financial statements because of this filing. Because the transaction does not meet the criteria for an "in-substance defeasance," funds on deposit and the related lease liability have been included in the accompanying financial statements.

The Authority also has a cross border lease agreement with ABB Credit Finans AB of Sweden for 40 heavy rail cars. The agreement provided for the Authority to lease the heavy rail cars for a period of 15 years commencing December 1994 with an option to extend the lease for another five years. The agreement allows the Authority to purchase these cars at the end of the lease for a specified amount. The remaining rental payments and fair option purchase price have a net present value of approximately \$24,908 at June 30, 1999. The Authority has made investment arrangements to meet all of its payment obligations throughout the term of the lease. Because the transaction does not meet the criteria for an "in-substance" defeasance, the funds on deposit and the related lease liability have been included in the accompanying financial statements.

Transportation property under capital leases is summarized as follows and is included in transportation property in service (see note 2(d)) at June 30, 1999:

Ways and structures	\$ 200,558
Rail cars	374,737
Buses	<u>36,118</u>
	611,413
Less accumulated depreciation	<u>(122,300)</u>
Net transportation property in service under capital lease	\$ <u>489,113</u>

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY

Notes to Financial Statements

June 30, 1999 and 1998

(dollars in thousands)

The following is a schedule by years of future minimum lease payments under capital leases together with the present value of net minimum lease payments as of June 30, 1999:

Fiscal year

2000	\$	34,205
2001		34,234
2002		43,825
2003		46,773
2004		48,380
Thereafter		<u>718,113</u>
		925,530
Less amount representing interest		<u>(393,280)</u>
Present value of net minimum lease payments		<u>532,250</u>
Less current principal maturities		<u>(8,073)</u>
Obligations under capital leases	\$	<u><u>524,177</u></u>

(c) *Operating Leases*

The Authority has entered into several sale-leaseback agreements with major financial institutions (the lessors) covering equipment and rolling stock. The leases mature through 2013. At the end of the lease terms, the Authority may purchase the vehicles at prices equal to the lesser of a stated percentage (40% - 70%) of the lessors' original purchase price or residual fair market value, as defined.

The leases have been accounted for as operating leases. Future minimum lease payments, all of which are eligible for 90% reimbursement through state contract assistance, are as follows:

Fiscal year

2000	\$	13,462
2001		13,391
2002		13,382
2003		14,071
2004		13,651
Thereafter		<u>110,257</u>
	\$	<u><u>178,214</u></u>

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY

Notes to Financial Statements

June 30, 1999 and 1998

(dollars in thousands)

(12) Risk Management

The Authority is exposed to various risks of loss related to general liability, property and casualty, workers' compensation, unemployment and employee health insurance claims.

Buildings are fully insured to the extent that losses exceed \$100 per incident. The Authority is self-insured for workers' compensation, unemployment claims, vehicle damage and loss and health insurance. The Authority pays 85% of all health premiums up to a maximum of \$200 per individual per illness. Stop loss insurance is carried on health insurance claims in excess of \$200 per individual per illness. Some employees elect to participate in managed health care programs. Under these plans the Authority is responsible for premium payments only. The Authority contributes 85% of managed health care premium costs.

The Authority self funds a \$5,000 per occurrence deductible for general liability.

During fiscal 1999 and 1998, expenditures for claims and judgments, excluding workers' compensation and health and life, were \$10,497 and \$11,435, respectively. Expenditures for claims related to workers' compensation were \$10,775 and \$9,829 and expenditures for the self-insured health plans were \$50,598 and \$49,775, respectively.

GASB Statement No. 10 requires that liabilities for self-insured claims be reported if it is probable that a loss has been incurred and the amount can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. The Authority reserves such liabilities as accrued expenses as of June 30, 1999 and 1998. Changes in the self-insurance reserves in fiscal 1999 and 1998 were as follows:

	<u>1999</u>	<u>1998</u>
Liability, beginning of year	\$ 69,820	68,285
Provisions for claims	75,267	72,574
Payments	<u>(71,869)</u>	<u>(71,039)</u>
Liability, end of year	\$ <u>73,218</u>	<u>69,820</u>

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY

Notes to Financial Statements

June 30, 1999 and 1998
(dollars in thousands)

(13) Subsequent Event

On July 12, 1999, the Authority created Rail Connections, Inc., a private Massachusetts nonprofit corporation organized under the provisions of Chapter 180 of Massachusetts General Laws, for the limited purpose of taking action necessary to provide for the financing of the Route 128 Train Station Parking Garage. The Authority is the sole member of Rail Connections, Inc., and the Board of Directors consists of three *ex officio* management employees of the Authority. On August 12, 1999, Rail Connections, Inc. issued an aggregate principal amount of \$32,121,164 Route 128 Parking Garage Revenue Bonds, Series A, B and C, to finance the Route 128 Train Station Parking Garage. The bonds were comprised of Tax-Exempt and Taxable Current Interest bonds and Tax-Exempt Capital Appreciation bonds with interest rates for the Current Interest bonds ranging from 5% to 8%. The bonds will mature on July 1, 2029. Debt service and operating expenses on the bonds will be paid solely from revenues of the parking garage. Notwithstanding the foregoing, to the extent there are not enough revenues available to pay operating expenses, the Authority has covenanted to pay operating expenses of the parking garage.

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY

Required Supplementary Information

Schedule of Funding Progress

June 30, 1999 and 1998
(Unaudited)
(dollars in thousands)

MBTA Retirement Plan

<u>Year Ended June 30</u>	<u>Actuarial value of assets (a)</u>	<u>Actuarial accrued liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded ratio (a/b)</u>	<u>Covered payroll (c)</u>	<u>UAAL as a percentage covered payroll ((b-a)/c)</u>
1990	\$ 781,492	\$ 864,820	\$ 83,328	90.36%	\$ 275,224	30.28%
1991	849,578	1,010,989	161,411	84.03	250,820	64.35
1992	900,412	1,069,181	168,769	84.22	273,441	61.72
1993	954,571	1,089,321	134,750	87.63	276,712	48.70
1994	983,556	1,150,035	166,479	85.52	259,938	64.05
1995	1,050,103	1,198,745	148,642	87.60	261,953	56.74
1996	1,138,225	1,237,705	99,480	91.96	257,141	38.69
1997	1,254,695	1,268,938	14,243	98.88	254,723	5.59

Deferred Compensation Plan

The Deferred Compensation Plan is not funded and management does not currently intend to fund the plan in the future other than to make benefit payments as they come due. As a result, the normal Schedule of Funding Progress would show no provision having been made for the cost of this plan.

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY

Required Supplementary Information

Schedule of Funding Progress

June 30, 1999 and 1998

(Unaudited)

(dollars in thousands)

In the table below, Column (b) which normally would have contained the Plan's assets, contains instead the Net Pension Obligation (amounts previously charged against operations but not yet contributed to the Plan). This alternative presentation shows how much of the cost of the program has been charged against operations in prior years.

Valuation date	Actuarial accrued liability (a)	Net pension obligation (b)	Unrecognized actuarial	Recognized ratio (d) (b)/(a)	Unrecognized	Covered Payroll (f)
			accrued liability (c) (a)-(b)		ratio (e) (c)/(a)	
07/01/96	\$ 30,234	\$ 7,887	\$ 22,347	26.1%	73.9%	\$ 27,779
07/01/97	29,827	7,562	22,265	25.4	74.6	27,779
07/01/98	29,881	7,029	22,852	23.5	76.5	31,299

Information about the unrecognized actuarial accrued liability for this plan for other years is currently not available.

Police Association Retirement Plan

Valuation date	Actuarial accrued liability (a)	Actuarial value of assets (b)	Unfunded actuarial accrued liability (c) (a)-(b)	Funded ratio (d) (b/a)	Covered payroll (e)	UAAL as a percentage of covered Payroll ((a-b)/e)
12/31/96	\$ 17,851	\$ 17,730	\$ 121	99.3%	\$ 7,517	1.6%
12/31/97	19,527	21,676	(2,149)	111.0	7,186	29.9

Information about the unrecognized actuarial accrued liability for this plan for other years is currently not available.

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY

Required Supplementary Information

Year 2000

June 30, 1999 and 1998
(Unaudited)

Year 2000 Readiness

The "Year 2000 issue" is the result of shortcomings in many electronic data processing systems and other equipment that make operations beyond the year 1999 troublesome. For many years, computer programmers eliminated the first two digits from a year when writing programs. Accordingly, many programs, if not corrected, will not be able to distinguish between the year 2000 and the year 1900. This may cause the programs to process data inaccurately or to stop processing data altogether. Another problem is that some programs are unable to detect the year 2000 as a leap year. Problems affecting a wide range of Authority services are likely to result if computers and other electronic equipment that are dependent on date-sensitive coding are not corrected. These problems have the potential for causing a disruption of Authority services.

The Authority has established and implemented a comprehensive plan to assess and remediate the Year 2000 issue at the Authority. The Authority began designing and implementing this plan in 1997 and is scheduled to be in compliance prior to year 2000. A Year 2000 steering committee, comprised of senior management, is responsible for directing the Authority's implementation plan for Year 2000 compliance and readiness. The Director of the Information Technology Department serves as the Program Manager, interfacing regularly with Authority personnel regarding resolution of the Year 2000 issue. An Authority-wide inventory and assessment was performed to identify systems and equipment that are non-compliant. Non-compliant systems are being tested, replaced, upgraded or remediated. Resources have been incorporated in both the capital and operating budgets to complete the Year 2000 implementation plan. To date, over \$13 million of capital funding has been committed to Year 2000 assessment and corrective actions, with \$6.8 million expended as of June 30, 1999. The Year 2000 readiness plan also includes monitoring compliance by the Authority's vendors and suppliers. Contingency planning is part of the assessment and remediation effort for Year 2000 readiness at the Authority.

While the Authority is working diligently to address the Year 2000 issue, because of the inherent complexity of the task, the Authority cannot provide complete assurance that the Year 2000 issue will not cause disruptions in its operations or financial activities. Furthermore, although the Authority is monitoring the readiness activities of its vendors and suppliers, failures by such vendors and suppliers to resolve their own Year 2000 issues could adversely affect the Authority's operations.

PROPOSED FORM OF OPINION OF BOND COUNSEL

Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C.

One Financial Center
Boston, Massachusetts 02111

Telephone: 617/542-6000
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Massachusetts Bay Transportation Authority
10 Park Plaza
Boston, Massachusetts 02116

Re: Massachusetts Bay Transportation Authority (the "Authority") General
Transportation System Bonds, Variable Rate Demand Obligations, 2000 Series,
dated March 10, 2000 (the "Bonds").

We have acted as bond counsel in connection with the issuance by the Authority of the Bonds pursuant to Chapter 161A of the Massachusetts General Laws (the "Act"), a Resolution of the Authority adopted February 15, 1967, as amended July 27, 1983, October 31, 1984 and November 20, 1991 (the "Bond Resolution") and a Series Resolution of the Authority adopted February 29, 2000 with respect to the Series Bonds (the "Resolution"). We have examined the law and such certified proceedings and other papers as we have deemed necessary to render this opinion.

The Bonds are being issued by means of a book entry system, with bond certificates immobilized at The Depository Trust Company, New York, New York ("DTC"), and not available for distribution to the public, evidencing ownership of the Bonds in Authorized Denominations with transfers of beneficial ownership effected on the records of DTC and its participants pursuant to rules and procedures established by DTC and its participants.

As to questions of fact material to our opinion, we have relied upon the representations of the Authority contained in the Resolution and in the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion that, under existing law:

1. The Authority is duly created and validly existing as a body politic and corporate and a political subdivision of The Commonwealth of Massachusetts (the

“Commonwealth”) with the corporate power to adopt the Resolution, perform the agreements on its part contained therein and issue the Bonds.

2. The Resolution has been duly adopted by the Authority and constitutes a valid and binding obligation of the Authority enforceable upon the Authority.
3. Pursuant to the Act, the Bond Resolution creates a valid lien on the moneys and securities in the Debt Service Fund established thereunder for the security of the Bonds on a parity with other bonds issued or to be issued under the Bond Resolution.
4. The Bonds have been duly authorized, executed and delivered by the Authority and are valid and binding direct and general obligations of the Authority, and the full faith and credit of the Authority are pledged to the payment of the principal of and interest on the Bonds.
5. The Authority is subject to suit, but its property is not generally subject to attachment or levy to pay a judgment on the Bonds. Provision is made, however, in Section 13 of the Act for court-ordered payment of unpaid Bonds from moneys received for the purpose by the Authority from the Commonwealth.
6. The Commonwealth is required by Section 13 of the Act to pay to the Authority amounts duly certified by its directors as necessary to pay the principal of and interest on the Bonds if sufficient funds are not otherwise available, and under the provisions of the Bond Resolution the directors of the Authority are required to make such certification to the Treasurer and Receiver-General of the Commonwealth. The obligation of the Commonwealth to pay such amounts to the Authority is a general obligation of the Commonwealth, and the full faith and credit of the Commonwealth are pledged to make such payments; it should be noted, however, that Chapter 62F of the Massachusetts General Laws establishes a state tax revenue growth limit and does not exclude payment of such amounts from the scope of the limit. Specific provision is made for legal proceedings by the Authority or any Bondholder against the Commonwealth to enforce collection of any amounts so certified. Payment of a judgment so obtained may be subject to legislative appropriation of the necessary funds, and the property of the Commonwealth is not subject to attachment or levy to pay any such judgment.
7. Interest on the Bonds will not be included in the gross income of the holders of the Bonds for federal income tax purposes. This opinion is rendered subject to compliance with various requirements of the Internal Revenue Code of 1986, as amended, which must be satisfied subsequent to the issuance of the Bonds in order that interest thereon is and continues to be excluded from gross income for

federal income tax purposes. Failure to comply with certain of such requirements could cause interest on the Bonds to be included in the gross income of holders of the Bonds retroactive to the date of issuance of the Bonds. While interest on the Bonds will not constitute a preference item for purposes of computation of the alternative minimum tax imposed on certain individuals and corporations, interest on the Bonds will be included in the "adjusted current earnings" of corporate holders of the Bonds and therefore will be taken into account in the computation of the alternative minimum tax applicable to certain corporations. We express no opinion as to other federal tax consequences resulting from holding the Bonds.

8. Under existing law, interest on the Bonds, and any profit made on the sale thereof are exempt from Massachusetts personal income taxes, and the Bonds are exempt from Massachusetts personal property taxes. We express no opinion as to other Massachusetts tax consequences arising with respect to the Bonds.

It is to be understood that the rights of the holders of the Bonds, including the rights against the Commonwealth described above, and the enforceability of the Bonds and the Resolution may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and that their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

Very truly yours,

Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C.

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**DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS
OF THE 2000 SERIES RESOLUTION, THE REMARKETING AGREEMENT
AND THE STANDBY BOND PURCHASE AGREEMENT**

The following is a summary of certain provisions of the 2000 Series Resolution, the Remarketing Agreement and the Standby Bond Purchase Agreement. The summary is not to be regarded as a full statement of such documents and, accordingly, is qualified by reference to the 2000 Series Resolution, the Remarketing Agreement and the Standby Bond Purchase Agreement and is subject to the full text thereof.

See also "THE 2000 BONDS" in the Official Statement for a description of certain other provisions relating to the 2000 Bonds.

DEFINITIONS

"Alternate Liquidity Facility" means any liquidity facility, insurance policy, line of credit, standby bond purchase agreement or other liquidity support or mechanism obtained, delivered, made, entered into or otherwise obtained for the purpose of securing the purchase of tendered or deemed tendered 2000 Bonds and as a replacement for or in substitution of the Standby Bond Purchase Agreement.

"Alternate Rate" means for a 2000 Bond in a particular Mode applied in accordance with the provisions described under the heading "Alternate Rates" the rate that is equal to the 30-day LIBOR rate as available on Telerate page 3750, through Bloomberg or such other interest rate information service on such date, multiplied by 65%. In the event that the LIBOR rate is no longer published, the Alternate Rate in respect of an interest rate determination date will be a comparable index selected by the Remarketing Agent and agreed to by the Authority and the Bank.

"Authorized Denominations" means (i) with respect to 2000 Bonds in a Daily Mode or Weekly Mode, \$100,000 and any integral multiple of \$5,000 in excess thereof, and (ii) with respect to 2000 Bonds in a Term Rate Mode or a Fixed Rate Mode, \$5,000 and any integral multiple thereof.

"Available Principal Commitment" initially means \$200,000,000, representing an amount equal to the original aggregate principal amount of the 2000 Bonds. The Available Principal Commitment shall be adjusted from time to time (a) downward by the principal amount of 2000 Bonds redeemed, paid or converted to the Term Rate Mode or Fixed Rate Mode, (b) downward by the principal amount of any eligible bonds purchased by the Bank pursuant to the Standby Bond Purchase Agreement, and (c) upward by the principal amount of any eligible bonds previously purchased by the Bank pursuant to the Standby Bond Purchase Agreement which are remarketed by the Remarketing Agent and for which the Bank has received immediately available funds equal to the par amount thereof; *provided, however*, that the sum of (i) the Available Principal Commitment plus (ii) the aggregate principal amount of Bank-Owned Bonds shall never exceed \$200,000,000. Any adjustments to the Available Principal Commitment pursuant to clauses (a), (b) or (c) hereof shall occur simultaneously with the occurrence of the events described in such clauses.

"Bank" means initially Westdeutsche Landesbank Girozentrale, New York Branch, its successors and assigns or any provider of an Alternate Liquidity Facility.

"Bank Interest Rate" means the interest rate, not to exceed the Maximum Rate payable on Bank-Owned Bonds and determined pursuant to the Standby Bond Purchase Agreement or the Alternate Liquidity Facility.

"Bank-Owned Bonds" means any 2000 Bonds registered in the name of the Bank.

"BMA Municipal Swap Index" means, with respect to any 2000 Bond in the Weekly Mode for which a rate is not set, the rate per annum determined on the basis of an index based upon the weekly interest rates of tax-exempt variable rate issues included in a database maintained by the Indexing Agent which meet specific criteria established by the Bond Market Association, formerly known as the Public Securities Association. In the event the Indexing Agent no longer publishes an index satisfying the requirements of the preceding sentence, the rate shall be the "J.J.

Kenny Index", provided, however, that if the J.J. Kenny Index also ceases to be published, an alternative index shall be calculated by an entity selected in good faith by the Authority, and shall be determined using the criteria for the BMA Municipal Swap Index.

"Bond Counsel" means any firm of nationally recognized municipal bond attorneys selected by the Authority and experienced in the issuance of municipal bonds and matters relating to the exclusion of the interest thereon from gross income for Federal income tax purposes.

"Business Day" means a day on which the Fiscal Agent, any Paying Agent, the Remarketing Agent, the Bank or banks or trust companies in New York, New York, are not authorized or required to remain closed and on which the New York Stock Exchange is not closed.

"Closing Date" means March 10, 2000.

"Code" means the Internal Revenue Code of 1986, as amended.

"Commonwealth Obligation" means the direct contract obligation of the Commonwealth to make payments to the Authority pursuant to the Section 28 Assistance Agreement and the direct and general obligation of the Commonwealth, to which the full faith and credit of the Commonwealth are pledged, to pay the Required Amount (as defined in the Standby Bond Purchase Agreement) pursuant to and in accordance with Section 13 of the Act.

"Contract of Purchase" means the Contract of Purchase dated March 9, 2000 by and between the Authority and PaineWebber Incorporated, as representative of the underwriters of the 2000 Bonds.

"Current Mode" shall have the meaning specified in the third paragraph under the heading "Changes in Mode."

"Daily Mode" means the Mode during which all or any part of the 2000 Bonds bear interest at the Daily Rate.

"Daily Rate" means the per annum interest rate on any 2000 Bond in the Daily Mode.

"Electronic Means" means telecopy, telegraph, telex, facsimile transmission, e-mail transmission or other similar electronic means of communication, including a telephonic communication confirmed by writing or written transmission.

"Event of Default" means any occurrence or event specified in the 2000 Series Resolution.

"Expiration Date" means the date on which the Standby Bond Purchase Agreement is to expire pursuant to its terms, initially 5:00 p.m. (New York time) on March 8, 2002, including any extension of such date.

"Expiration Tender Date" means the day five Business Days prior to the Expiration Date.

"Favorable Opinion of Bond Counsel" means, with respect to any action the occurrence of which requires such an opinion, an unqualified counsel's opinion, which shall be delivered by a Bond Counsel, to the effect that such action is permitted under the Act and the 2000 Series Resolution and will not impair the exclusion of interest on the 2000 Bonds from gross income for purposes of Federal income taxation (subject to the inclusion of any exceptions contained in the opinion delivered upon original issuance of the 2000 Bonds).

"Fitch" means Fitch IBCA, Inc, a nationally recognized bond rating agency, and its successors and assigns.

"Fixed Rate" means the per annum interest rate on any 2000 Bond in the Fixed Rate Mode.

"Fixed Rate Bonds" means any 2000 Bonds in the Fixed Rate Mode.

"Fixed Rate Mode" means the Mode during which all or a particular portion of the 2000 Bonds bear interest at a Fixed Rate(s).

"Government Obligations" means any of the following securities, if and to the extent the same are non-callable and not subject to redemption at the option of the owners, at the time legal for investment of the Authority's funds, as determined by the Authority: direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America, including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America and including a receipt, certificate or any other evidence of an ownership interest in an aforementioned obligation, or in specified portions the (which may consist of specified portions of interest thereon).

"Indexing Agent" means Municipal Market Data, Boston Massachusetts, a Thompson Financial Services Company, or its successor.

"Information Services" means any of the following services which has been designated in a certificate of the Authority delivered to the Fiscal Agent: Financial Information, Inc.'s "Daily Called Bond Service," 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; Kenny Information Services "Called Bond Service," 55 Broad Street, 28th Floor, New York, New York 10004; Moody's "Municipal and Government," 99 Church Street, 8th Floor, New York, New York 10007, Attention: Municipal News Reports; and Standard & Poor's "Called Bond Record," 55 Water Street, New York, New York 10041; or such other services providing information with respect to called bonds as the Authority may designate in a certificate of the Authority delivered to the Fiscal Agent.

"Interest Accrual Period" means the period during which a 2000 Bond accrues interest payable on any Interest Payment Date applicable thereto. The Interest Accrual Period shall commence on (and include) the last Interest Payment Date to which interest has been paid (or, if no interest has been paid in such Mode, from the date of original authentication and delivery of such 2000 Bond, or the Mode Change Date, as the case may be) to, but not including, the Interest Payment Date on which interest is to be paid. If, at the time of authentication of any 2000 Bond, interest is in default or overdue on the 2000 Bonds, such 2000 Bond shall bear interest from the date to which interest has previously been paid in full or made available for payment in full on Outstanding 2000 Bonds.

"Interest Amount" means the amount of the interest portion available under the Standby Bond Purchase Agreement, which (i) during the Daily Mode and the Weekly Mode shall be an amount equal to 186 days' interest on the Outstanding 2000 Bonds calculated at the Maximum Rate on the basis of a 365/366 day year for the actual number of days elapsed, and (ii) during the Term Rate Mode and the Fixed Rate Mode shall be an amount equal to 205 days' interest on the Outstanding 2000 Bonds then covered by the Alternate Liquidity Facility Agreement, calculated at the Maximum Rate on the basis of a 360 day year composed of twelve 30-day months.

"Interest Payment Date" means each March 1 and September 1 or each year commencing September 1, 2000.

"Interest Period" means, for a 2000 Bond in a particular Mode, the period of time that such 2000 Bond bears interest at the rate (per annum) which becomes effective at the beginning of such period. The Interest Period for each Mode is as follows: for a 2000 Bond in the Daily Mode, the period from (and including) the Mode Change Date upon which such 2000 Bond is changed to the Daily Mode to (but excluding) the next Rate Determination Date for such 2000 Bond, and thereafter the period from and including the current Rate Determination Date for such 2000 Bond to (but excluding) the next Rate Determination Date for such 2000 Bond; for a 2000 Bond in the Weekly Mode, the period from (and including) the Mode Change Date upon which such bond is changed to the Weekly Mode to (and including) the next Tuesday, and thereafter the period from (and including) each Wednesday to (and including) the next Tuesday; and for a 2000 Bond in the Term Rate Mode, the period from (and including) the Mode Change Date to (but excluding) the last day of the first period that such 2000 Bond shall be in the Term Rate Mode as established by the Authority for such 2000 Bond and, the period from (and including) the beginning date

of each successive interest rate period selected for such 2000 Bond by the Authority while it is in the Term Rate Mode to (but excluding) the ending date for such period selected for such 2000 Bond by the Authority. Each Interest Period for a 2000 Bond in the Term Rate Mode shall end on a Stated Interest Payment Date occurring not earlier than three months after the commencement of such Period.

"J.J. Kenny Index" means, with respect to a 2000 Bond in the Weekly Mode for which a rate is not, or cannot be set, the index generally made available on the applicable Rate Determination Date by Kenny Information Systems or any successor thereto. The J.J. Kenny Index shall be based upon 30-day yield evaluations at par of bonds, the interest on which is exempt from Federal income taxation under the Internal Revenue Code of 1986 as amended, of not less than five "high grade" component issuers selected by the Kenny Information Systems which shall include, without limitation, issuers of general obligation bonds. The specific issuers included among the component issuers may be changed from time to time by the Kenny Information Systems in its discretion. The bonds on which the J.J. Kenny Index is based shall not include any bonds the interest on which is subject to a "minimum tax" or similar tax under the Internal Revenue Code, unless all tax-exempt bonds are subject to such tax.

"Liquidity Advance" has the meaning set forth in the Standby Bond Purchase Agreement.

"Long-Term Mode" means the Term Rate Mode.

"Mandatory Purchase Date" means (i) any Purchase Date for 2000 Bonds in the Term Rate Mode, (ii) any Mode Change Date involving a change from the Daily Mode or the Weekly Mode, (iii) the Substitution Tender Date and (iv) the date on which the 2000 Bonds are subject to mandatory purchase as a result of termination of the Standby Bond Purchase Agreement or Alternate Liquidity Facility in accordance with the provisions described under the heading "Mandatory Purchase Due to Termination of Standby Bond Purchase Agreement or Alternate Liquidity Facility."

"Maturity Date" means March 1, 2030 and, upon a change to the Fixed Rate Mode, any Serial Maturity Date established.

"Maximum Rate" means 9% per annum.

"Mode" means, as the context may require, the Daily Mode, the Weekly Mode, the Term Rate Mode or the Fixed Rate Mode.

"Mode Change Date" means with respect to any 2000 Bond in a particular Mode, the day on which another Mode for such 2000 Bond begins.

"Mode Change Notice" means the notice from the Authority to the other Notice Parties of the Authority's intention to change Mode.

"Moody's" means Moody's Investors Service, a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency selected by the Authority and approved by the Bank (which shall not be under any liability by reason of such approval).

"New Mode" shall have the meaning specified in under the heading "Changes in Mode."

"Notice Parties" means the Authority, the Fiscal Agent, the Remarketing Agent, the Paying Agent and the Bank.

"Obligations" means all amounts owed by the Authority to the Bank under the Standby Bond Purchase Agreement and the Bank-Owned Bonds.

"Outstanding" shall have the meaning given such term in the General Bond Resolution; provided that, 2000 Bonds registered in the name of the Bank or its nominee shall remain Outstanding in the hands of the Bank until the Bank is paid all amounts due on such 2000 Bonds. Furthermore, 2000 Bonds, the principal of which was paid with an advance under the Standby Bond Purchase Agreement, which advance has not been reimbursed, shall remain Outstanding until the Bank is reimbursed in full for such advance.

"Paying Agent" means State Street Bank and Trust Company, having its principal office in Boston, Massachusetts, or any other commercial bank or trust company which may be substituted in its place as provided in the General Bond Resolution.

"Principal Payment Date" means any date upon which the principal amount of 2000 Bonds is due, including the Maturity Date, any Serial Maturity Date or any Redemption Date.

"Purchase Date" means (i) for a 2000 Bond in the Daily Mode or the Weekly Mode, any Business Day selected by the Holder of said 2000 Bond and (ii) for a 2000 Bond in the Term Rate Mode, the last day of the Interest Period for such 2000 Bond (or the next Business Day if such last day is not a Business Day), but only if the Holder thereof shall have elected to have such 2000 Bond purchased on such date.

"Purchase Fund" means the fund by that name created under the heading "Purchase Fund."

"Purchase Price" means (i) an amount equal to the principal amount of any 2000 Bonds purchased on any Purchase Date, plus, in the case of any purchase of 2000 Bonds in the Daily Mode or the Weekly Mode, accrued interest, if any, to the Purchase Date, or (ii) an amount equal to the principal amount of any 2000 Bonds purchased on a Mandatory Purchase Date, plus, in the case of any 2000 Bonds purchased on a Substitution Tender Date or in the event of a Mode Change Date involving a change from the Daily Mode or Weekly Mode, accrued interest, if any, to the Mandatory Purchase Date.

"Rate Determination Date" means the date on which the interest rate on a 2000 Bond shall be determined, which, (i) in the case of the Daily Mode, shall be each Business Day commencing with the first day the 2000 Bonds become subject to the Daily Mode; (ii) in the case of the initial conversion to the Weekly Mode, shall be no later than the Business Day prior to the Mode Change Date, and thereafter, shall be each Tuesday or, if Tuesday is not a Business Day, the next succeeding day or, if such day is not a Business Day, then the Business Day next preceding such Tuesday; (iii) in the case of the Term Rate Mode, shall be a Business Day no earlier than thirty (30) Business Days and no later than the Business Day next preceding the first day of an Interest Period, as determined by the Remarketing Agent; and (iv) in the case of the Fixed Rate Mode, shall be a date determined by the Remarketing Agent which shall be at least one Business Day prior to the Mode Change Date.

"Rating Confirmation Notice" means a notice from each rating agency then rating the 2000 Bonds confirming that the rating on the 2000 Bonds will not be withdrawn (other than a withdrawal of a short term rating upon a change to a Long-Term Mode) as a result of the action proposed to be taken.

"Record Date" means, with respect to 2000 Bonds in a Daily Mode or Weekly Mode, the Business Day next preceding each Interest Payment Date, and with respect to 2000 Bonds in a Fixed Rate Mode or Term Rate Mode, the fifteenth (15th) day (whether or not a Business Day) of the month next preceding each Interest Payment Date.

"Redemption Date" means the date fixed for redemption of 2000 Bonds subject to redemption in any notice of redemption given.

"Redemption Price" means an amount equal to the principal of and premium, if any, and accrued interest, if any, on the 2000 Bonds to be paid on the Redemption Date.

"Related Documents" means the General Bond Resolution, the Series 2000 Resolution, the 2000 Bonds, the Remarketing Agreement, the Official Statement and the Contract of Purchase and all agreements, certificates

and other instruments executed and delivered by any Person in connection with the Contract of Purchase on the Closing Date.

"Remarketing Agent" means PaineWebber Incorporated, or any other investment banking firm which may at any time be substituted in its place.

"Remarketing Agreement" means that certain Remarketing Agreement relating to the 2000 Bonds, dated March 10, 2000 by and between the Authority and the Remarketing Agent or any similar agreement between the Authority and the Remarketing Agent, as it may be amended or supplemented from time to time in accordance with its terms.

"Remarketing Proceeds Account" means the account by that name created under the heading "Purchase Fund."

"Renewal Date" means the sixtieth (60th) day prior to the Expiration Date.

"Section 28 Assistance Agreement" means the Contract for Financial Assistance dated December 1, 1964, as amended and supplemented, by and between the Commonwealth and the Authority, whereby the Commonwealth agrees to pay to the Authority when due a portion of the debt service on the 2000 Bonds in an amount equal to 90% of the principal and accrued interest on the 2000 Bonds pursuant to the Designation of Bond Issue for Contract Assistance dated March 10, 2000.

"Securities Depositories" means any of the following registered securities depositories which has been designated in a certificate of the Authority delivered to the Fiscal Agent: The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Fax -516/227-4039 or 4190, (ii) Midwest Securities Trust Company, Capital Structures-Call Notification, 440 South LaSalle Street, Chicago, Illinois 60605, Fax-312/663-2343, and (iii) Philadelphia Depository Trust Company, Reorganization Division, 1900 Market Street, Philadelphia, Pennsylvania 19103, Attention: Bond Department, Fax- 215/496-5058; or, such other securities depositories as the Authority may designate in a certificate of the Authority delivered to the Fiscal Agent.

"Serial Maturity Dates" means the dates on which 2000 Bonds constituting Serial Bonds mature.

"Serial Payments" mean the payments to be made in payment of the principal of the 2000 Bonds constituting Serial Bonds on the Serial Maturity Dates.

"Short-Term Mode" means a Daily Mode or a Weekly Mode.

"S&P" means Standard & Poor's Rating Group, a division of McGraw-Hill, duly organized and existing under and by virtue of the laws of the State of New York, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term "S&P" shall be deemed to refer to any other nationally recognized securities rating agency selected by the Authority and approved by the Bank (which shall not be under any liability by reason of such approval).

"Standby Bond Purchase Agreement" means that certain Standby Bond Purchase Agreement, dated March 10, 2000, by and between the Bank and the Authority or, if an Alternate Liquidity Facility has been issued, the standby bond purchase agreement, or corresponding agreement, if any, in connection with such Alternate Liquidity Facility.

"Standby Bond Purchase Agreement Purchase Account" means the account by that name created under the heading "Purchase Fund."

"Stated Interest Payment Dates" means each March 1 and September 1.

"Substitution Date" means the date on which an Alternate Liquidity Facility is to be substituted for the Standby Bond Purchase Agreement.

"Substitution Tender Date" means, in the event the 2000 Bonds are subject to mandatory purchase, the date five (5) Business Days prior to the Substitution Date.

"Term Rate" means the per annum interest rate for any 2000 Bond in the Term Rate Mode.

"Term Rate Interest Payment Dates" means, with respect to a 2000 Bond in the Term Rate Mode and for the current Interest Period for such 2000 Bond, each Stated Interest Payment Date occurring in such Period (beginning with the first Stated Interest Payment Date that occurs no earlier than three months after the commencement of such Period).

"Term Rate Mode" means the Mode during which all or any part of the 2000 Bonds bear interest at the Term Rate.

"2000 Series Resolution" means the Series Resolution adopted in accordance with the provisions of Article II and of Article X of the General Bond Resolution and pursuant to the authority contained in the Act.

"Weekly Mode" means the Mode during which all or any part of the 2000 Bonds bear interest at the Weekly Rate.

"Weekly Rate" means the per annum interest rate on any 2000 Bond in the Weekly Mode.

PROVISIONS OF THE 2000 BONDS

The 2000 Bonds shall be initially issued in the Weekly Mode and in the form of fully registered 2000 Bonds in Authorized Denominations. The principal of and premium, if any, and interest on the 2000 Bonds shall be payable in lawful money of the United States of America. Notwithstanding anything in the General Bond Resolution to the contrary, the interest on the 2000 Bonds shall be paid by the Paying Agent on the Interest Payment Dates (i) in the case of 2000 Bonds in the Daily Mode or the Weekly Mode, by wire transfer of immediately available funds to an account specified by the Holder of record thereof on the applicable Record Date in a writing delivered to the Paying Agent and (ii) in the case of 2000 Bonds in a Term Rate Mode or Fixed Rate Mode, by check mailed by the Paying Agent to the respective Holders of record thereof on the applicable Record Date at their addresses as they appear on the applicable Record Date in the books required to be kept by the Paying Agent pursuant to the provisions of the General Bond Resolution, except that in the case of such an Holder of \$1,000,000 or more in aggregate principal amount of 2000 Bonds, upon the written request of such Holder to the Paying Agent, specifying the account or accounts to which such payment shall be made, payment of interest shall be made by wire transfer of immediately available funds on the Interest Payment Date following such Record Date. Any such request shall remain in effect until revoked or revised by such Holder by an instrument in writing delivered to the Paying Agent. The principal of and premium, if any, on each 2000 Bond shall be payable on the Principal Payment Date, upon surrender thereof at the office of the Paying Agent.

The Paying Agent, the Fiscal Agent, the Remarketing Agent and the Authority may treat the Holder of a 2000 Bond as the absolute owner thereof for all purposes, whether or not such 2000 Bond shall be overdue, and the Paying Agent, the Fiscal Agent, the Remarketing Agent and the Authority shall not be affected by any knowledge or notice to the contrary; and payment of the principal of and premium, if any, and interest on such 2000 Bond shall be made only to such Holder, which payments shall be valid and effectual to satisfy and discharge the liability of such 2000 Bond to the extent of the sum or sums so paid. All 2000 Bonds paid shall be canceled by the Paying Agent.

The 2000 Bonds shall be dated the date of authentication thereof and shall bear interest during each Interest Accrual Period until the entire principal amount of the 2000 Bonds has been paid.

The 2000 Bonds shall be issued in fully registered form and shall be lettered R and shall be numbered from one (1) consecutively upwards in order of issue.

Payment of Principal and Interest of 2000 Bonds; Acceptance of Terms and Conditions

The interest on the 2000 Bonds shall become due and payable on the Interest Payment Dates in each year to and including the Maturity Date, and on each Redemption Date. The principal of the 2000 Bonds shall become due and payable on the Principal Payment Dates.

By the acceptance of its 2000 Bond, the Holder thereof shall be deemed to have agreed to all the terms and provisions of such 2000 Bond as specified in such 2000 Bond and the 2000 Series Resolution and in the General Bond Resolution including, without limitation, the applicable Interest Periods, interest rates (including any applicable Alternate Rate), Purchase Dates, Mandatory Purchase Dates, Purchase Prices, mandatory and optional purchase and redemption provisions applicable to such 2000 Bond, method and timing of purchase, redemption, payment, etc. Such Holder further agrees that if, on any date upon which one of its 2000 Bonds is to be purchased, redeemed or paid at maturity or earlier due date, funds are on deposit with the Paying Agent or the Fiscal Agent to pay the full amount due on such 2000 Bond, then such Holder shall have no rights under the 2000 Series Resolution and the General Bond Resolution other than to receive such full amount due with respect to such 2000 Bond and that interest on such 2000 Bond shall cease to accrue as of such date.

Calculation and Payment of Interest; Maximum Rate

Payment of interest on each 2000 Bond shall be made on each Interest Payment Date for such 2000 Bond for unpaid interest accrued during the Interest Accrual Period to the Holder of record of such 2000 Bond on the applicable Record Date.

All of the 2000 Bonds in any Mode, other than a Fixed Rate Mode, may be changed to any other Mode at the times and in the manner provided. Subsequent to such change in Mode (other than a change to a Fixed Rate Mode), the 2000 Bonds may again be changed to a different Mode at the times and in the manner provided. A Fixed Rate Mode shall be in effect until the Maturity Date, and may not be changed to any other Mode.

Absent manifest error, the interest rates and interest periods determined by the Remarketing Agent (or the Authority in the case of interest periods for the Term Rate Mode) and contained in the records of the Paying Agent shall be conclusive and binding upon the Authority, the Remarketing Agent, the Paying Agent, the Fiscal Agent, the Bank and the Holders.

No 2000 Bonds shall bear interest at an interest rate higher than the Maximum Rate.

Determination of Interest Rate During the Daily Mode and the Weekly Mode

The interest rate for any 2000 Bond in the Daily Mode or Weekly Mode shall be the rate of interest per annum determined by the Remarketing Agent on and as of the applicable Rate Determination Date as the minimum rate of interest which, in the opinion of the Remarketing Agent under then-existing market conditions, would result in the sale of such 2000 Bond on the Rate Determination Date at a price equal to the principal amount thereof, plus accrued and unpaid interest, if any.

During the Daily Mode, the Remarketing Agent shall establish the Daily Rate by 10:00 A.M. on each Rate Determination Date. The Daily Rate for any day during the Daily Mode which is not a Business Day shall be the Daily Rate established on the immediately preceding Rate Determination Date. The Remarketing Agent shall make the Daily Rate available by telephone to any Holder or Notice Party requesting such rate, and on the last Business Day of each month, shall give notice to the Paying Agent of the Daily Rates that were in effect for each day of such month by Electronic Means.

During the Weekly Mode, the Remarketing Agent shall establish the Weekly Rate by 4:00 P.M. on each Rate Determination Date. The Weekly Rate shall be in effect (i) initially, from and including the Closing Date to and including the following Tuesday and (ii) thereafter, from and including each Wednesday to and including the following Tuesday. The Remarketing Agent shall make the Weekly Rate available (i) after 4:00 P.M. on the Rate Determination Date by telephone to any Holder or Notice Party requesting such rate and (ii) by Electronic Means to the Paying Agent not later than the second Business Day immediately succeeding the Rate Determination Date. The Paying Agent shall give notice of such interest rates to the Fiscal Agent by Electronic Means not later than 4:00 P.M. on the second Business Day immediately succeeding the Rate Determination Date.

Determination of Term Rate and Fixed Rate

Term Rates

Once 2000 Bonds are changed to the Term Rate Mode, such 2000 Bonds shall continue in the Term Rate Mode until changed to another Mode. The Term Rate shall be determined by the Remarketing Agent not later than 4:00 P.M. on the Rate Determination Date, and the Remarketing Agent shall make the Term Rate available by telephone to any Notice Party requesting such rate. The Remarketing Agent shall give written notice of the Term Rate to the Authority and the Paying Agent upon request. The Term Rate shall be the minimum rate which, in the sole judgment of the Remarketing Agent, will result in a sale of the 2000 Bonds at a price equal to the principal amount thereof on the Rate Determination Date for the Interest Period selected by the Authority in writing delivered to the Remarketing Agent before such Rate Determination Date. If a new Interest Period is not selected by the Authority prior to such Rate Determination Date (for a reason other than a court prohibiting such selection) the new Interest Period shall be the same length as the current Interest Period (or such lesser period as shall be necessary to comply with the next sentence and paragraph). No Interest Period in the Term Rate Mode may extend beyond the applicable Maturity Date.

A 2000 Bond on the date it is converted to the Term Rate Mode and while it is in the Term Rate Mode does not have to be secured by a liquidity facility if so determined by the Authority. If, however, it is secured by an Alternate Liquidity Facility, then, notwithstanding anything to the contrary, no Interest Period for such 2000 Bond may extend beyond the Expiration Tender Date.

Fixed Rate

The Remarketing Agent shall determine the Fixed Rate for a 2000 Bond in the Fixed Rate Mode in the manner and at the times as follows: Not later than 4:00 P.M. on the Rate Determination Date for such 2000 Bond, the Remarketing Agent shall determine the Fixed Rate for such 2000 Bond. The Fixed Rate shall be the minimum interest rate which, in the sole judgment of the Remarketing Agent, will result in a sale of such 2000 Bond at a price equal to the principal amount thereof on the Rate Determination Date. The Remarketing Agent shall make the Fixed Rate available by telephone to any Notice Party requesting such Fixed Rate. Upon request of any Notice Party, the Paying Agent shall give notice of such rate by Electronic Means. 2000 Bonds in the Fixed Rate Mode do not have to be supported by a liquidity facility.

Alternate Rates

In the event (i) the Remarketing Agent fails or is unable to determine the interest rate or Interest Period for any 2000 Bond or (ii) the method by which the Remarketing Agent determines the interest rate or Interest Period with respect to a 2000 Bond (or the selection by the Authority of the Interest Periods for 2000 Bonds in the Term Rate Mode) shall be held to be unenforceable by a court of law of competent jurisdiction, the 2000 Bonds shall thereupon convert to bear interest in the Weekly Mode at the Alternate Rate until such time as the Remarketing Agent (or the Authority if applicable) again makes such determinations. In the case of clause (ii) above, the Remarketing Agent (or the Authority, if applicable) shall again make such determination at such time as there is delivered to the Remarketing Agent and the Authority an opinion of Bond Counsel to the effect that there are no longer any legal prohibitions against such determinations.

Changes in Mode

The Authority may effect a change in Mode with respect to the 2000 Bonds with the following procedures.

Changes to a Mode Other Than the Fixed Rate Mode

The 2000 Bonds (unless in the Fixed Rate Mode) may be changed from one Mode to another Mode (other than the Fixed Rate Mode) as follows:

Mode Change Notice; Notice to Holders

No later than the forty-fifth (45th) day (or such shorter time as may be agreed to by the Authority, the Fiscal Agent, the Paying Agent and the Remarketing Agent) preceding the proposed Mode Change Date, the Authority shall give written notice to the Notice Parties of its intention to effect a change in the Mode from the Mode then prevailing (for purposes of this paragraph, the "Current Mode") to another Mode (for purposes of this paragraph, the "New Mode") specified in such written notice, and, if the change is to a Term Rate Mode, the length of the initial Interest Period as set by the Authority and whether or not the 2000 Bonds to be converted to the Term Rate Mode will be covered by an Alternate Liquidity Facility (if they will be covered, then the initial Interest Rate Period for such 2000 Bonds selected by the Authority cannot extend beyond the Expiration Tender Date). Notice of the proposed change in Mode and resulting mandatory purchase shall be given to the Holders.

Determination of Interest Rates

The New Mode for a 2000 Bond shall commence on the Mode Change Date for such 2000 Bond and the interest rate shall be determined by the Remarketing Agent (or the Authority in the case of the Interest Period for a 2000 Bond converted to the Term Rate Mode).

Conditions Precedent

- (A) The Mode Change Date shall be a Business Day.
- (B) Additionally, the Mode Change Date, in the case of a change from a Term Rate Mode, shall be the last day of the current Interest Period for the 2000 Bond being converted.
- (C) The following items shall have been delivered to the Fiscal Agent, the Paying Agent and the Remarketing Agent on the Mode Change Date:
 - (1) in the case of a change from a Short-Term Mode to a Long-Term Mode or from a Long-Term Mode to a Short-Term Mode, a Favorable Opinion of Bond Counsel dated the Mode Change Date and addressed to the Fiscal Agent, the Paying Agent and the Remarketing Agent;
 - (2) a Rating Confirmation Notice; and
 - (3) a liquidity facility with a principal component equal to the principal amount of the 2000 Bonds being converted, and with an interest component equal to or greater than the Interest Amount for the applicable Mode and with an Expiration Date not earlier than 5 days prior to the end of the initial Interest Rate Period for such 2000 Bond; provided, however, that in the case of a conversion of a 2000 Bond to the Term Rate Mode, no liquidity facility need be applicable to such 2000 Bond while in the Term Rate Mode if the Authority so elects by the time it gives the notice to the Notice Parties.

Change to Fixed Rate Mode

At the option of the Authority, a 2000 Bond may be changed to the Fixed Rate Mode. Not less than forty-five (45) days (or such shorter time as may be agreed to by the Authority, the Fiscal Agent and the Remarketing Agent) before the proposed Mode Change Date for such 2000 Bond, the Authority shall give written notice to the Notice Parties stating that the Mode will be changed to the Fixed Rate Mode and setting forth the proposed Mode Change Date and whether or not the 2000 Bonds to be converted to the Fixed Rate Mode will be covered by an Alternate Liquidity Facility (and, if so, for how long). Such Notice shall also state whether or not some or all of the 2000 Bonds to be converted shall be converted to Serial Bonds and, if so, the applicable Serial Maturity Dates and Serial Payments. Any such change in Mode shall be made as follows:

(A) Conditions Precedent. The Mode Change Date shall be:

(1) a Business Day; and

(2) in the case of a change from the Term Rate Mode, the last day of the current Interest Period for the 2000 Bond being converted.

(B) Notice to Holders. Not less than the thirtieth (30th) day next preceding the Mode Change Date, the Paying Agent shall mail, in the name of the Authority, a notice of such proposed change to the Holders of the 2000 Bonds being converted stating that the Mode will be changed to the Fixed Rate Mode, the proposed Mode Change Date and that such Holder is required to tender such Holder's 2000 Bonds for purchase on such proposed Mode Change Date.

(C) General Provisions Applying to Change to Fixed Rate Mode. The change to the Fixed Rate Mode shall not occur unless the following items shall have been delivered to the Fiscal Agent and the Remarketing Agent on the Mode Change Date:

(1) if the change is from a Short-Term Mode or a Term Rate Mode, a Favorable Opinion of Bond Counsel dated the Mode Change Date and addressed to the Fiscal Agent and the Remarketing Agent; and

(2) a Rating Confirmation Notice.

(D) Determination of Interest Rate. The Fixed Rate for a 2000 Bond to be converted to the Fixed Rate Mode shall be established by the Remarketing Agent.

(E) Serialization. Upon the conversion of 2000 Bonds to the Fixed Rate Mode, the Authority may elect to serialize such 2000 Bonds in accordance with a certificate of an Authorized Officer delivered prior to such conversion.

Failure to Satisfy Conditions Precedent to a Mode Change

In the event the conditions described above, as applicable, have not been satisfied by the applicable Mode Change Date, then the New Mode or Fixed Rate Mode, as the case may be, shall not take effect. If the failed change in Mode was from the Daily Mode, the applicable 2000 Bond shall remain in the Daily Mode, and if the failed change in Mode was from the Weekly Mode, the applicable 2000 Bond shall remain in the Weekly Mode, in each case with interest rates established on and as of the failed Mode Change Date. If the failed change in Mode was from the Term Rate Mode and for which the Alternate Liquidity Facility was in effect for the 2000 Bond to be changed, the applicable 2000 Bond shall be changed to the Weekly Mode with interest rates established in accordance with the applicable provisions of Section 206 of the 2000 Series Resolution on and as of the failed Mode Change Date. If, however, there was no Alternate Liquidity Facility in effect for such 2000 Bond to have been changed from the Term Rate Mode, then such 2000 Bond shall stay in the Term Rate Mode for an Interest Period ending on the next Stated Interest Payment Date and shall bear interest at the applicable Alternative Rate.

Mandatory Purchase Due to an Event of Default Under Standby Bond Purchase Agreement

All 2000 Bonds secured by the Standby Bond Purchase Agreement (which shall not include Bank-Owned Bonds) shall be subject to mandatory purchase if the Fiscal Agent receives a notice from the Bank in writing that an Event of Default, as defined in the Standby Bond Purchase Agreement, (other than an Event of Default that shall cause the Bank's obligation to purchase 2000 Bonds to terminate immediately in accordance with the Standby Bond Purchase Agreement) has occurred and is continuing and the Bank has exercised its option to terminate the Standby Bond Purchase Agreement. Such 2000 Bonds subject to mandatory purchase shall be purchased on the date specified by the Bank in such written notice (or if such date is not a Business Day, the next succeeding Business Day). Such Mandatory Purchase Date shall be not more than ten (10) nor less than five (5) days after the date such notice is given and not less than five (5) days before the date the Standby Bond Purchase Agreement is to be terminated. 2000 Bonds purchased shall be delivered by the Holders (with all necessary endorsements) to the office of the Paying Agent in Boston, Massachusetts, at or before 12:00 noon on the Mandatory Purchase Date, and payment of the Purchase Price shall be made by wire transfer in immediately available funds by the Paying Agent by the close of business on the Mandatory Purchase Date.

The Paying Agent shall give notice by mail to all Holders and the Notice Parties prior to the close of business on the Business Day after receipt by the Fiscal Agent of such notice stating (i) the Mandatory Purchase Date; (ii) the Purchase Price; (iii) that 2000 Bonds must be surrendered to collect the Purchase Price; (iv) that the Standby Bond Purchase Agreement will terminate on the date specified in such notice; and (v) that interest on such 2000 Bonds will cease to accrue to such Holder from and after the Mandatory Purchase Date.

Optional Redemption of 2000 Bonds in the Daily Mode or the Weekly Mode

2000 Bonds in the Daily Mode or the Weekly Mode are subject to optional redemption by the Authority, in whole or in part, in Authorized Denominations on any Interest Payment Date, at a redemption price equal to the principal amount thereof, plus accrued and unpaid interest, if any.

Optional Redemption of 2000 Bonds in the Term Rate or the Fixed Rate Mode

2000 Bonds in the Term Rate Mode or Fixed Rate Mode are subject to redemption in whole on any date or in part on any Interest Payment Date (and if in part, in such order of maturity as the Authority shall specify and within a maturity by lot or by such other method as the Paying Agent determines to be fair and reasonable and in Authorized Denominations) at the redemption prices set forth below:

If, on the Mode Change Date, the remaining term of the 2000 Bonds, in the case of Fixed Rate Bonds, or the length of the Interest Period, in the case of Term Rate Bonds, is greater than fifteen (15) years, then the 2000 Bonds will not be subject to optional redemption until the Stated Interest Payment Date to follow the tenth (10th) anniversary of the Mode Change Date. On such first Stated Interest Payment Date, the 2000 Bonds will be subject to redemption at a redemption price of 101 percent of the principal amount thereof, plus accrued interest, if any, to the Redemption Date, which price will decline by one-half of one percent per annum on each succeeding anniversary of such first Stated Interest Payment Date until reaching a price of 100 percent of the principal amount thereof plus accrued interest, if any, to the Redemption Date, and thereafter at a redemption price of 100 percent of the principal amount thereof plus accrued interest, if any, to the Redemption Date.

If, on the Mode Change Date, the remaining term of the 2000 Bonds, in the case of Fixed Rate Bonds, or the length of the Interest Period, in the case of Term Rate Bonds, is equal to or less than fifteen (15) years, but greater than ten (10) years, the 2000 Bonds will not be subject to optional redemption until the first Stated Interest Payment Date to follow the seventh (7th) anniversary of the Mode Change Date. On such first Stated Interest Payment Date, the 2000 Bonds will be subject to redemption at a redemption price of 101 percent of the principal amount thereof, plus accrued interest, if any, to the Redemption Date, which price will decline by one-half of one percent per annum on each succeeding anniversary of such first Stated Interest Payment Date until reaching a price of 100 percent of the principal amount thereof, plus accrued interest, if any, to the Redemption Date, and thereafter

at a redemption price of 100 percent of the principal amount thereof, plus accrued interest, if any, to the Redemption Date.

If, on the Mode Change Date, the remaining term of the 2000 Bonds, in the case of Fixed Rate Bonds, or the length of the Interest Period, in the case of Term Rate Bonds, is equal to or less than ten (10) years but greater than five (5) years, the 2000 Bonds will not be subject to optional redemption until the first Stated Interest Payment Date to follow the third anniversary of the Mode Change Date. On such first Stated Interest Payment Date, the 2000 Bonds will be subject to redemption at a redemption price of 101 percent of the principal amount thereof, plus accrued interest, if any, to the Redemption Date, which price will decline by one percent per annum on each succeeding anniversary of such first Stated Interest Payment Date until reaching a price of 100 percent of the principal amount thereof, plus accrued interest, if any, to the Redemption Date, and thereafter at a redemption price of 100 percent of the principal amount thereof, plus accrued interest, if any, to the Redemption Date.

If, on the Mode Change Date, the remaining term of the 2000 Bonds, in the case of Fixed Rate Bonds, or the length of the Interest Period, in the case of Term Rate Bonds, is equal to or less than 5 years, the 2000 Bonds will be subject to redemption on or after the first Stated Interest Payment Date (whichever is earlier) to follow the second anniversary of the Mode Change Date at a redemption price equal to 100 percent of the principal amount thereof, plus accrued interest, if any, to the Redemption Date, and prior thereto will not be subject to optional redemption.

The Authority, in connection with a change to a Term Rate or a Fixed Rate Mode, may waive or otherwise alter its rights to direct the redemption of any such 2000 Bonds so changed to a Term Rate Mode or a Fixed Rate Mode at any time without premium; provided that, notice describing the waiver or alteration shall be submitted to the Paying Agent, the Fiscal Agent and the Remarketing Agent, together with a Favorable Opinion of Bond Counsel, addressed to them.

Selection of 2000 Bonds for Redemption

If not otherwise provided, whenever less than all the Outstanding 2000 Bonds of a maturity are to be redeemed on any one date, the Fiscal Agent shall select the 2000 Bonds to be redeemed from the Outstanding 2000 Bonds of such maturity by lot, or in such other manner as the Fiscal Agent deems fair; provided, that Bank-Owned Bonds shall be redeemed prior to other 2000 Bonds.

Effect of Redemption

If notice of redemption has been duly given as aforesaid and money for the payment of the Redemption Price of the 2000 Bonds or portions thereof to be redeemed is held by the Paying Agent, then on the Redemption Date designated in such notice the 2000 Bonds or portions thereof so called for redemption shall become payable at the Redemption Price as specified in such notice; and from and after the Redemption Date so designated, interest thereon or portions thereof so called for redemption shall cease to accrue, such 2000 Bonds or portions thereof shall cease to be entitled to any benefit, protection or security hereunder and the Holders of such 2000 Bonds or portions thereof shall have no rights in respect thereof except to receive payment of the Redemption Price. Notwithstanding the foregoing, any Bank-Owned Bonds shall remain Outstanding until the Bank is paid all amounts due under such of the 2000 Bonds or portions thereof to be redeemed on their redemption dates. After payment to the Bank of all amounts due on Bank-Owned Bonds the Bank shall surrender such 2000 Bonds to the Paying Agent for cancellation.

Bank-Owned Bonds

Notwithstanding anything in the General Resolution of the 2000 Series Resolution to the contrary, 2000 Bonds redeemed or paid for by the Standby Bond Purchase Agreement or Alternate Liquidity Facility shall remain Outstanding and continue to accrue interest at the Bank Interest Rate and be payable under the Resolution as Bank-Owned Bonds.

Optional Tenders of 2000 Bonds in the Daily Mode or the Weekly Mode

The Holders of 2000 Bonds in a Daily Mode or a Weekly Mode may elect to have their 2000 Bonds (or portions of those 2000 Bonds in amounts equal to an Authorized Denominations) purchased on any Business Day at a price equal to the Purchase Price, (i) in the case of 2000 Bonds in a Daily Mode, upon delivery of an irrevocable telephonic notice of tender to the Remarketing Agent not later than 11:00 A.M. on the Purchase Date specified by the Holder; and (ii) in the case of 2000 Bonds in a Weekly Mode, upon delivery of an irrevocable written notice of tender or irrevocable telephonic notice of tender to the Remarketing Agent, promptly confirmed in writing to the Paying Agent, not later than 4:00 P.M. on a Business Day not less than seven (7) days before the Purchase Date specified by the Holder in such notice. Such notices of tender shall state the CUSIP number, 2000 Bond number and the principal amount of such 2000 Bond and that such 2000 Bond shall be purchased on the Purchase Date specified above. The 2000 Bond shall be delivered (with all necessary endorsements) at or before 12:00 noon on the Purchase Date at the office of the Paying Agent; provided, however, that payment of the Purchase Price shall be made only if the 2000 Bond so delivered to the Paying Agent conforms in all respects to the description thereof in the notice. Payment of the Purchase Price with respect to purchases shall be made to the Holders of tendered 2000 Bonds by wire transfer in immediately available funds by the Paying Agent by the close of business on the Purchase Date. An Holder who gives the notice of tender as set forth above may repurchase the 2000 Bonds so tendered on such Purchase Date if the Remarketing Agent agrees to sell the 2000 Bonds so tendered to such Holder. If such Holder decides to repurchase such 2000 Bonds and the Remarketing Agent agrees to sell the specified 2000 Bonds to such Holder, the delivery requirements set forth above shall be waived.

Mandatory Purchase on Mode Change Date

2000 Bonds to be changed from one Mode to another Mode (other than a change to the Fixed Rate Mode) are subject to mandatory purchase on the Mode Change Date at the Purchase Price. 2000 Bonds purchased shall be delivered by the Holders (with all necessary endorsements) to the office of the Paying Agent in Boston, Massachusetts, at or before 12:00 noon on the Mode Change Date and payment of the Purchase Price shall be made by wire transfer in immediately available funds by the close of business on the Mode Change Date. The Paying Agent shall give notice of such mandatory purchase by mail to the Holders of the 2000 Bonds subject to mandatory purchase no less than thirty (30) days prior to the Mandatory Purchase Date. The notice shall state the Mandatory Purchase Date and the Purchase Price, and that interest on 2000 Bonds subject to mandatory purchase shall cease to accrue from and after the Mandatory Purchase Date. The failure to mail such notice with respect to any 2000 Bond shall not affect the validity of the mandatory purchase of any other 2000 Bond with respect to which notice was so mailed. Any notice mailed will be conclusively presumed to have been given, whether or not actually received by any Holder.

2000 Bonds to be changed to the Fixed Rate Mode are subject to mandatory purchase on the Mode Change Date at the Purchase Price. 2000 Bonds purchased shall be delivered by the Holders (with all necessary endorsements) to the office of the Paying Agent in Boston, Massachusetts, at or before 12:00 noon on the Mode Change Date and payment of the Purchase Price shall be made by wire transfer of immediately available funds by the close of business on the Mode Change Date. The Paying Agent shall give notice of such mandatory purchase as part of the notice of change of Mode to be sent to the Holders.

Optional Purchase at End of Interest Period for Term Rate Mode

The Holder of a 2000 Bond in the Term Rate Mode may elect to have its 2000 Bond (or portions thereof in Authorized Denominations) purchased on the last day of the current Interest Period applicable to such 2000 Bond (or the next Business Day if such last day is not a Business Day) at a price equal to the Purchase Price upon delivery of an irrevocable written notice of tender or irrevocable telephonic notice of tender to the Remarketing Agent, promptly confirmed in writing to the Paying Agent, by not later than 4:00 p.m. on a Business Day not less than thirty (30) days before such last day. Such notice of tender shall state the CUSIP number, 2000 Bond number and the principal amount of such 2000 Bond to be purchased. 2000 Bonds purchased shall be delivered by the Holders (with all necessary endorsements) to the office of the Paying Agent, at or before 12:00 noon on such Purchase Date

and payment of the Purchase Price of such 2000 Bonds shall be made by wire transfer in immediately available funds by the Paying Agent by the close of business on such Business Day.

Mandatory Purchase Upon Substitution of Alternate Liquidity Facility

In the event that on or prior to the forty-fifth (45th) day next preceding the Substitution Date, the Authority has failed to deliver to the Paying Agent and the Fiscal Agent a Rating Confirmation Notice in connection with the delivery of an Alternate Liquidity Facility, together with a written statement of Moody's, S&P and Fitch, as applicable, indicating that the substitution of the Alternate Liquidity Facility will not result in a lowering of their ratings on the 2000 Bonds to be covered by the Alternate Liquidity Facility as a result of its substitution for the current Standby Bond Purchase Agreement, the 2000 Bonds having the benefit of the Standby Bond Purchase Agreement shall be subject to mandatory purchase on the Substitution Tender Date. The Paying Agent shall give notice of such mandatory purchase by mail to the Holders of the 2000 Bonds subject to mandatory purchase no less than thirty (30) days prior to the Mandatory Purchase Date. The notice shall state the Substitution Tender Date, the Purchase Price and that interest on 2000 Bonds subject to mandatory purchase shall cease to accrue from and after the Substitution Tender Date. The failure to mail such notice with respect to any 2000 Bond shall not affect the validity of the mandatory purchase of any other 2000 Bond with respect to which notice was so mailed. Any notice mailed will be conclusively presumed to have been given, whether or not actually received by any Holder. 2000 Bonds purchased shall be delivered by the Holders (with all necessary endorsements) to the office of the Paying Agent in Boston, Massachusetts, at or before 12:00 noon on the Mandatory Purchase Date, and payment of the Purchase Price of such 2000 Bonds shall be made by wire transfer in immediately available funds by the Paying Agent by the close of business on such Substitution Tender Date.

Remarketing of 2000 Bonds

The Remarketing Agent shall use its best efforts to offer for sale: all 2000 Bonds or portions thereof as to which notice of tender has been given; all 2000 Bonds required to be purchased; and all Bank-Owned Bonds.

On each Purchase Date or Mandatory Purchase Date, as the case may be, the Paying Agent shall direct the Fiscal Agent to notify the Bank to advance funds under the Standby Bond Purchase Agreement (if such an Agreement is available therefor) by 1:00 P.M. in an amount equal to the Purchase Price of all 2000 Bonds tendered or deemed tendered less the aggregate amount of remarketing proceeds received from the remarketing of 2000 Bonds.

Undelivered 2000 Bonds

If 2000 Bonds to be purchased are not delivered by the Holders to the Paying Agent by 12:00 noon on the Purchase Date or the Mandatory Purchase Date, as the case may be, the Paying Agent shall hold any funds received for the purchase of those 2000 Bonds in trust in a separate account and shall pay such funds to the former Holders of the 2000 Bonds upon presentation of the 2000 Bonds. Such undelivered 2000 Bonds shall cease to accrue interest as to the former Holders on the Purchase Date or the Mandatory Purchase Date, as the case may be, and moneys representing the Purchase Price shall be available against delivery of those 2000 Bonds at the Principal Office of the Paying Agent; provided, however, that any funds which shall be so held by the Paying Agent and which remain unclaimed by the former Holder of a 2000 Bond not presented for purchase for a period of five years after delivery of such funds to the Paying Agent, shall, to the extent permitted by law, upon request in writing by the Authority and the furnishing of security or indemnity to the Paying Agent's satisfaction, be paid to the Authority free of any trust or lien and thereafter the former Holder of such 2000 Bond shall look only to the Authority and then only to the extent of the amounts so received by the Authority without any interest thereon and the Paying Agent shall have no further responsibility with respect to such moneys or payment of the purchase price of such 2000 Bonds. The Paying Agent shall authenticate a replacement 2000 Bond for any undelivered 2000 Bond which may then be remarketed by the Remarketing Agent.

No Purchases or Sales After Payment Default

Anything in the 2000 Series Resolution to the contrary notwithstanding, if there shall have occurred and be continuing an Event of Default, the Remarketing Agent shall not remarket any 2000 Bonds.

Purchase Fund

The 2000 Series Resolution establishes with the Paying Agent a separate fund to be known as the "Purchase Fund." The Paying Agent shall further establish separate accounts within the Purchase Fund to be known as the "Standby Bond Purchase Agreement Purchase Account" and the "Remarketing Proceeds Account."

Remarketing Proceeds Account

Upon receipt of the proceeds of a remarketing of 2000 Bonds, the Paying Agent shall deposit such proceeds in the Remarketing Proceeds Account for application to the Purchase Price of the 2000 Bonds. Notwithstanding the foregoing, upon the receipt of the proceeds of a remarketing of Bank-Owned Bonds, the Paying Agent shall immediately pay such proceeds to the Bank to the extent of any amount owing to the Bank.

Standby Bond Purchase Agreement Purchase Account

Upon receipt from the Fiscal Agent of the immediately available funds transferred to the Paying Agent, the Paying Agent shall deposit such money in the Standby Bond Purchase Agreement Purchase Account for application to the Purchase Price of the 2000 Bonds to the extent that the moneys on deposit in the Remarketing Proceeds Account shall not be sufficient. Any amounts deposited in the Standby Bond Purchase Agreement Purchase Account and not needed with respect to any Purchase Date or Mandatory Purchase Date for the payment of the Purchase Price for any 2000 Bonds shall be immediately returned to the Bank.

Investment

Amounts held in the Standby Bond Purchase Agreement Purchase Account and the Remarketing Proceeds Account by the Paying Agent shall be held uninvested and separate and apart from all other funds and accounts.

Control by Bank

When there is a Standby Bond Purchase Agreement in effect covering at least a majority in aggregate principal amount of the then Outstanding 2000 Bonds and so long as the Bank has not wrongfully dishonored an advance under the Standby Bond Purchase Agreement, the Bank may direct the time, method and place of conducting any proceeding for any remedy available to the Fiscal Agent under the General Bond Resolution or of exercising any trust or power conferred on it with respect to the 2000 Bonds.

Limitation on Suits

When a Standby Bond Purchase Agreement is in effect covering at least a majority in aggregate principal amount of the then Outstanding 2000 Bonds and so long as the Bank has not wrongfully dishonored an advance under the Standby Bond Purchase Agreement, the Bank may pursue any remedy available under the 2000 Series Resolution without the necessity of any action by the Fiscal Agent.

Priorities

Funds advanced under the Standby Bond Purchase Agreement will be used only for the payment of the Purchase Price of the 2000 Bonds supported by the Standby Bond Purchase Agreement, and to the extent provided in the Standby Bond Purchase Agreement.

The Remarketing Agent

The Remarketing Agent may at any time resign and be discharged of the duties and obligations created by the 2000 Series Resolution by giving at least thirty (30) days' notice to the Authority, the Fiscal Agent, the Paying Agent and the Bank. The Remarketing Agent may be removed at any time, at the direction of the Authority, by an instrument filed with the Remarketing Agent, the Fiscal Agent, the Paying Agent and the Bank and upon at least thirty (30) days' notice to the Remarketing Agent. Any successor Remarketing Agent shall be selected by the Authority and shall be a member of the National Association of Securities Dealers, Inc., shall have a capitalization of at least fifteen million dollars (\$15,000,000), and shall be authorized by law to perform all the duties set forth in the 2000 Series Resolution. When a Standby Bond Purchase Agreement is in effect and so long as the Bank has not wrongfully dishonored a draw on the Standby Bond Purchase Agreement, the Authority shall obtain the Bank's consent to the appointment of such successor Remarketing Agent. The Authority's delivery to the Fiscal Agent of a certificate setting forth the effective date of the appointment of a successor Remarketing Agent and the name of such successor shall be conclusive evidence that (i) if applicable, the predecessor Remarketing Agent has been removed in accordance with the provisions of the 2000 Series Resolution and (ii) such successor has been appointed and is qualified to act as Remarketing Agent under the terms of the 2000 Series Resolution.

Under the Remarketing Agreement, the Remarketing Agent will suspend its remarketing efforts upon the receipt of notice of the occurrence of an event of default under the 2000 Bonds, the 2000 Series Resolution or the Standby Bond Purchase Agreement, and may, in its sole discretion, suspend its remarketing efforts with respect to the 2000 Bonds immediately upon the occurrence of any of the following events, which suspension will continue so long as, in the Remarketing Agent's reasonable judgment, such event continues to exist as to the 2000 Bonds:

(A) general suspension or material limitation in trading in securities generally on the New York Stock Exchange;

(B) a general moratorium on commercial banking activities in New York is declared by either federal or New York State authorities;

(C) the engagement by the United States in hostilities if the effect of such engagement, in the Remarketing Agent's judgment, materially affects the marketability of the 2000 Bonds;

(D) legislation shall be reported favorably by committee, or be enacted by the House of Representatives or the Senate of the Congress of the United States, or a decision by a court of the United States shall be rendered, or a stop order, ruling, regulation or official statement by, or on behalf of, the United States Securities and Exchange Commission or other governmental agency having jurisdiction of the subject matter shall be made or proposed, to the effect that the offering or sale of obligations of the general character of the 2000 Bonds, is or would be in violation of any provision of the Securities Act of 1933, as amended (the "Securities Act") as then in effect, or the Securities Exchange Act of 1934, as amended (the "Exchange Act") as then in effect, or with the purpose or effect of otherwise prohibiting the offering or sale of obligations of the general character of the 2000 Bonds, or the 2000 Bonds themselves;

(E) any event shall occur or information shall become known, which, in the Remarketing Agent's reasonable opinion, makes untrue, incorrect or misleading in any material respect any statement or information contained in any disclosure documents provided to the Remarketing Agent in connection with the performance of its duties, or causes such documents to contain an untrue, incorrect or misleading statement of a material fact or to omit to state a material fact required to be stated therein or necessary to make the statements made therein, in light of the circumstances under which they were made, not misleading;

(F) any governmental authority shall impose, as to the 2000 Bonds, or obligations of the general character of the Securities, any material restrictions not now in force, or increase materially those now in force;

(G) any of the representations and warranties of the Authority made under the Remarketing Agreement shall not have been true and correct on the date made;

(H) the Authority fails to observe any of the covenants or agreements made in the Remarketing Agreement;

(I) any of the rating agencies then rating the Standby Bond Purchase Agreement or the Bank shall either (i) downgrade the ratings assigned to either the 2000 Bonds or the Bank so that the 2000 Bonds are not "Eligible Securities" as defined under Rule 2a-7 of the Investment Company Act of 1940, as amended or (ii) suspend or withdraw the then current ratings assigned to either the Securities or the Bank; or

(J) an actual or imminent default or a moratorium in respect of payment of any U.S. Treasury bills, bonds or notes the effect of which in the Remarketing Agent's judgment makes it impractical to market the Securities or to enforce contracts for the sale of the Securities.

SUMMARY OF CERTAIN PROVISIONS OF STANDBY BOND PURCHASE AGREEMENT

The following summary of certain provisions of the Standby Bond Purchase Agreement is not intended to be comprehensive or complete, and reference should be made to the Standby Bond Purchase Agreement for the complete terms thereof. The provisions of any substitute Alternate Liquidity Facility may be different from those summarized below.

The Standby Bond Purchase Agreement will be issued in an amount equal to the original aggregate principal amount of the 2000 Bonds plus interest thereon for a period of one hundred eighty-six (186) days at an assumed per annum rate of interest equal to 9% (as adjusted from time to time, the "Available Commitment"). The Fiscal Agent, upon compliance with the terms of the Standby Bond Purchase Agreement, is authorized and directed to draw up to an amount sufficient to pay the portion of the purchase price of 2000 Bonds delivered for purchase and not remarketed equal to the principal amount of such 2000 Bonds, plus an amount not to exceed one hundred eighty-six (186) days of accrued interest on such 2000 Bonds at a rate of 9% per annum to pay interest on such 2000 Bonds when due.

The Bank's commitment to fund under the Standby Bond Purchase Agreement will terminate on the earliest of the Bank's close of business on (a) the Expiration Date; (b) the date on which no applicable 2000 Bonds are otherwise Outstanding; (c) the date on which the Available Commitment shall be terminated in its entirety and the Bank shall no longer be obligated to purchase applicable 2000 Bonds; (d) the date on which the Bank's obligation to purchase is terminated following an Event of Default in the immediately succeeding paragraph; (e) the fifth Business Day next succeeding the date on which the 2000 Bonds have been converted to a Term Rate Mode or Fixed Rate Mode; and (f) the Substitution Date.

Upon the occurrence of any event of default described in clauses (b)(i), (c), (g), (h), (i), (j) or (k) below, (i) the Bank's obligation to purchase 2000 Bonds hereunder shall terminate immediately without notice or any action on the part of the Bank, and (ii) all accrued Commitment Fees and other amounts due and outstanding under the Standby Bond Purchase Agreement shall be payable on the effective date of such termination.

If any other event of default under the Standby 2000 Bond Purchase Agreement occurs and is continuing, the Bank may, among other things, (i) give written notice of such event of default to the Fiscal Agent, the Paying Agent, the Authority and the Remarketing Agent and request the Paying Agent to cause a mandatory purchase of the 2000 Bonds in accordance with the 2000 Series Resolution and their terms and prohibit the remarketing of the 2000 Bonds, thereby causing the Bank's obligations under the Standby Bond Purchase Agreement to terminate 30 days thereafter; and (ii) take any other action or remedy permitted by law to enforce the rights of the Bank under the Standby Bond Purchase Agreement and under the 2000 Bonds and any Related Document.

The following events shall be "events of default" under the Standby Bond Purchase Agreement:

(a) an event of default or default shall have occurred and shall be continuing under any of the Related Documents (other than an event of default or default specified hereinbelow); or

(b) the Authority shall fail to pay or cause to be paid when due (i) any amounts with respect to the principal of or interest or premium, if any, on the 2000 Bonds (including Bank-Owned Bonds) or any general obligation debt of the Authority on a parity with the 2000 Bonds, (ii) any amounts payable with respect to reimbursing the Bank for any Liquidity Advance made by such Bank under the Standby Bond Purchase Agreement (other than as described in (i) above), or (iii) any other amount payable pursuant to the Standby Bond Purchase Agreement or the 2000 Bonds (including Bank-Owned Bonds); or

(c) failure by the Commonwealth to pay when due any principal of or interest on (i) any indebtedness of the Commonwealth including, without limitation, debt evidenced by bonds, bond anticipation notes, tax and revenue anticipation notes or other similar instruments, or (ii) any obligations as to which the Commonwealth has guaranteed or otherwise backed the punctual payment of the principal thereof or interest thereon and which are general obligations of the Commonwealth, including the 2000 Bonds, or (iii) any contingent liabilities of the Commonwealth arising from statutory requirements for payments by the Commonwealth with respect to the debt service of certain agencies or authorities, including that of the Authority, and which are general obligations of the Commonwealth; or

(d) the Authority shall fail to observe or perform certain covenants set forth in the Standby Bond Purchase Agreement; or

(e) the Authority shall fail to observe or perform any covenant or agreement contained (or incorporated by reference) in the Standby Bond Purchase Agreement (other than those covered by clauses (b), (c) or (d) above) for 30 days after written notice thereof requesting that such default be remedied has been given to it by the Bank; or

(f) any representation warranty, certification or statement made by the Authority (or incorporated by reference) in the Standby Bond Purchase Agreement, the Section 28 Assistance Agreement or in any Related Document to which it is a party or in any certificate, financial statement or other document delivered pursuant to the Standby Bond Purchase Agreement, the Section 28 Assistance Agreement or any Related Document shall prove to have been incorrect in any material respect when made; or

(g) an order, judgment or decree shall be entered by any court of competent jurisdiction (i) appointing a receiver, trustee or liquidator for the Authority, (ii) approving a petition filed against the Authority under the Federal bankruptcy laws, (iii) granting relief to the Authority under the Federal bankruptcy laws or relief substantially similar to that afforded under said laws, or (iv) assuming the custody or control of the Authority or its properties under the provisions of any other law for the relief or aid of debtors, and such order, decree or judgment shall not be vacated or stayed or set aside within sixty (60) days from the entry thereof, or the Authority shall file a petition in bankruptcy or make an assignment for the benefit of creditors or consent to the appointment of a receiver of the whole or any substantial part of its properties or shall file a petition or answer seeking relief under the Federal bankruptcy laws; or

(h) a final, non-appealable money judgment shall be entered by a court or other regulatory body of competent jurisdiction against the Commonwealth or the Authority in an amount in excess of five million dollars (\$5,000,000) and the Commonwealth or the Authority, as the case may be, shall have failed to satisfy said money judgment from and after the first date when said judgment shall become enforceable and subject to collection in accordance with its terms; or

(i) any material provision of the Standby Bond Purchase Agreement, the Section 28 Assistance Agreement, the Commonwealth Obligation or any Related Document relating to the payment of any Obligations under the Standby Bond Purchase Agreement or under the 2000 Bonds or the security therefor

shall at any time for any reason cease to be valid and binding on the Authority or the Commonwealth, as the case may be, or shall be declared to be null and void as the result of a final judgment or action by any court or governmental authority or agency having jurisdiction over the Authority or the Commonwealth, as the case may be, or the Authority repudiates or otherwise denies that it has any further liability or obligation hereunder or with respect to the 2000 Bonds, or the Commonwealth repudiates or otherwise denies that it has any further liability or obligation under the Commonwealth Obligation or the Section 28 Assistance Agreement or the Commonwealth Obligation or the Section 28 Assistance Agreement shall at any time and for any reason cease to be a general obligation of the Commonwealth; or

(j) the Authority or the Commonwealth, as the case may be, shall have (i) taken or permitted to be taken any action or duly enacted any statute which would materially adversely affect the enforceability of the Standby Bond Purchase Agreement or any Obligations thereunder or (ii) contested the validity or enforceability of any material provision of the Standby Bond Purchase Agreement, the Section 28 Assistance Agreement, the Commonwealth Obligation or any Related Document relating to the payment of any Obligations under the Standby Bond Purchase Agreement or under the 2000 Bonds or the security therefor; or

(k) a moratorium shall have been declared or announced (whether or not in writing) with respect to any general obligation debt of the Commonwealth or the Authority or the Commonwealth or the Authority shall seek any form of debtor relief affecting its general obligation debt or a receiver shall be appointed with respect to any assets of the Commonwealth or the Authority or the Commonwealth or the Authority shall be declared by a court of competent jurisdiction or shall declare itself to be insolvent; or

(l) the Commonwealth's general obligation debt shall be rated below Baa2 by Moody's or BBB by S&P or Fitch or such rating shall be withdrawn or suspended for credit related reasons.

2000 Bonds purchased with money advanced under the Standby Bond Purchase Agreement become Bank-Owned Bonds and may not be remarketed unless or until the Bank has confirmed in writing to the Commonwealth that the Available Principal Commitment has been reinstated and that such 2000 Bonds are no longer considered Bank-Owned Bonds.

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<p style="text-align: center;">OVERVIEW OF WESTDEUTSCHE LANDESBANK GIROZENTRALE</p>
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• **BACKGROUND INFORMATION**

WestLB, which traces its history to 1832, was created by the merger of two central banks, or Landesbanks (German State Banks), in the State of North Rhine-Westphalia, the Federal Republic of Germany ("Germany") on January 1, 1969. As a German universal bank, WestLB provides commercial and investment banking services regionally, nationally and internationally to public, corporate and bank customers. WestLB is the largest of the Landesbanks and, on the basis of total assets at December 31, 1998, was the fourth largest bank in Germany. At December 31, 1998, WestLB had total assets of approximately DM 540.8 billion (US\$ 323.2 billion).

WestLB also performs the functions of a state and municipal bank for the State of North Rhine-Westphalia and acts as the central bank of the Sparkassen (savings banks) in North Rhine-Westphalia (Germany's most populous state). It conducts a comprehensive range of wholesale banking business and has the power to issue mortgage bonds, municipal bonds and other bonds and is the largest continuous issuer of long term debt in Germany. In its capacity as central bank, WestLB acts as the clearing and depository bank for the savings banks in North Rhine-Westphalia. As a state bank, WestLB provides trustee services for state-supported lending programs for housing, regional economic assistance, middle market firms and environmental protection. Internationally, the WestLB Group (the "Group") operates through an extensive network of banking subsidiaries, branches and representative offices to provide a range of financial services to its clients.

Pursuant to a guaranty obligation (Gewährträgerhaftung) set forth in Section 37 of the North Rhine-Westphalia Savings Bank Act and Section 5 of the Ordinances of WestLB, North Rhine-Westphalia together with the other guarantors specified therein (including regional authorities and savings bank associations) are jointly and severally liable without restriction for all obligations of WestLB, including all obligations of WestLB New York. The guaranty obligation gives creditors a direct claim against North Rhine-Westphalia only if the claims of the creditors have not first been satisfied out of the assets of WestLB, including the assets of WestLB New York.

In addition to being liable under the guaranty obligation, North Rhine-Westphalia, having established WestLB, is responsible to WestLB for the performance of WestLB's obligations, including all obligations of WestLB New York. This maintenance obligation (Anstaltslast), while not a formal guaranty affording creditors of WestLB a direct claim against North Rhine-Westphalia, requires North Rhine-Westphalia to keep WestLB in a position to perform its functions and to enable it, in the event of financial difficulties, to perform its obligations, when due.

- ***THE NEW YORK BRANCH***

The New York Branch of WestLB ("WestLB New York") is licensed and subject to supervision and regulation by the Superintendent of Banks of the State of New York. WestLB New York is examined by the New York State Banking Department and is subject to banking laws and regulations applicable to a foreign bank that operates a New York branch. In addition to being subject to New York banking laws and regulations, WestLB and WestLB New York are also subject to the International Banking Act of 1978 (the "IBA") and the Foreign Bank Supervision Enhancement Act of 1991, and WestLB is subject to federal regulation under the IBA and the Bank Holding Company Act of 1956.

- ***SUMMARY OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION FOR THE FISCAL YEAR ENDED DECEMBER 31, 1998***

In the fiscal year ended December 31, 1998, WestLB's total assets grew by 18.4% from DM 456.7 billion to DM 540.8 billion (US\$ 323.2 billion). As of December 31, 1998, total deposits and borrowed funds totaled DM 495 billion (US\$ 296 billion), an increase of 18% from the previous year's amount by DM 76 billion. WestLB's capital and reserves (including supplementary capital) increased to DM 22,438 million (US\$ 13,411 million) as of December 31, 1998 (as compared to DM 19,246 million as of December 31, 1997).

WestLB's operating profit before risk provisions/result of evaluation of DM 1,548 million (US\$ 925 million) increased by 15.3% over the previous year. Interest surplus increased by 11.7% (from DM 3,064 million in 1997 to DM 3,422 million in 1998). Commission surplus increased by 15.2% (from DM 395 million in 1997 to DM 455 million in 1998). Staff expenses increased by 8.6% to DM 1,381 million (US\$ 825 million) in 1998, with other administrative expenses showing an increase of 25.0% to DM 1,325 million (US\$ 792 million) in 1998.

- ***UNITED STATES AND GERMAN EXCHANGE RATES, AND GENERALLY ACCEPTED ACCOUNTING PRINCIPLES***

The financial information for the year ended December 31, 1998 is derived from the audited statements of WestLB, does not include the consolidated subsidiaries of the WestLB Group and has been prepared in accordance with accounting principles, practices, laws and regulations generally accepted in Germany. German accounting principles differ in certain respects from accounting principles generally accepted in the United States.

Unless indicated otherwise, currency amounts are stated in Deutsche Marks ("DM" or "Deutsche Marks") or United States dollars ("US\$" or "U.S. dollars"). Merely for the convenience of the reader, this summary contains translations of certain Deutsche Mark amounts into U.S. dollars at specified rates. These translations should not be construed as representations that the Deutsche Mark amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollar amounts at the rate indicated. Unless otherwise indicated, the translations of Deutsche Marks into U.S. dollars have been made at **DM 1.6730 = US\$ 1.00**, which was the official (Frankfurt fixing) exchange rate on December 30, 1998. In certain instances, figures reflect the effect of rounding.

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AUTHORITY CONTINUING DISCLOSURE AGREEMENT

This Authority Continuing Disclosure Agreement dated March 10, 2000 (this "Disclosure Agreement") is executed and delivered by the Massachusetts Bay Transportation Authority (the "Authority") and State Street Bank and Trust Company, as Fiscal Agent (the "Fiscal Agent"), in connection with the issuance of Massachusetts Bay Transportation Authority, General Transportation System Bonds, Variable Rate Demand Obligations, 2000 Series (the "Bonds"). The Bonds are being issued pursuant to Chapter 161A of the General Laws of the Commonwealth (the "Act") and the Authority's General Bond Resolution adopted on February 15, 1967, as amended and supplemented (the "General Resolution"). The Authority and the Fiscal Agent covenant and agree as follows:

Section 1. Purpose; Beneficiaries. This Disclosure Agreement is entered into solely to assist the Participating Underwriter (defined below) in complying with subsection (b)(5) of the Rule (defined below). This Disclosure Agreement constitutes a written undertaking for the benefit of the registered owners and beneficial owners (within the meaning of the Rule) of the Bonds (such registered owners and beneficial owners being sometimes called herein collectively "owners").

Section 2. Definitions. The following words and terms used in this Disclosure Agreement shall have the following respective meanings:

(a) "Annual Report" shall mean any Annual Report provided by the Authority to the Fiscal Agent, and consistent with the requirements of Sections 3 and 4 of this Disclosure Agreement.

(b) "MSRB" means the Municipal Securities Rulemaking Board.

(c) "NRMSIR" means, at any time, a then-existing, nationally recognized municipal securities information repository, as recognized from time to time by the SEC for the purposes referred to in the Rule. The NRMSIRs as of the date of this Disclosure Agreement are listed on Exhibit A hereto.

(d) "Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

(e) "Rule" means Rule 15c2-12 promulgated by the SEC under the Securities and Exchange Act of 1934, as amended (17 CFR Part 240, 240.15c2-12), as in effect on the date of this Disclosure Agreement, including any official interpretation thereof.

(f) "SEC" means the United States Securities and Exchange Commission.

(g) "SID" means, at any time, a then-existing, state information depository, if any, as operated or designated as such by or on behalf of the Commonwealth (hereinafter defined) for the purposes referred to in the Rule. As of the date of this Disclosure Agreement, there is no SID.

All capitalized words and terms used in this Disclosure Agreement and not otherwise defined herein shall have the meaning ascribed to such words and terms in the Official Statement dated March 3, 2000 pertaining to the Bonds (the "Official Statement").

Section 3. Provision of Annual Reports. The Authority shall deliver to the Fiscal Agent its Annual Report, not later than 255 days after the end of its fiscal year. If said Annual Report does not contain the Authority's audited financial statements for the fiscal year of the Annual Report, then the Authority shall, in any

event, deliver to the Fiscal Agent said audited financial statements no later than 335 days after the end of its fiscal year.

The Fiscal Agent shall forward to each NRMSIR and the SID the Authority's Annual Report, with or without the Authority's audited financial statements, or notice of the Authority's failure to provide said Annual Report, no later than 270 days after the end of the fiscal year of the Authority. If the Authority elects not to provide the Fiscal Agent with its audited financial statements as part of its Annual Report within the 255 day period described above, the Fiscal Agent shall forward to each NRMSIR and the SID the Authority's audited financial statements, or notice of the Authority's failure to provide said audited financial statements, no later than 350 days after the end of the Authority's fiscal year.

Within five (5) business days prior to the date of forwarding the Annual Report and the audited financial statements to each NRMSIR and the SID, the Fiscal Agent shall confirm the name and address of each NRMSIR and the SID. The Fiscal Agent may rely conclusively on the list of NRMSIRs maintained by the United States Securities and Exchange Commission. Upon its forwarding of the Annual Report and audited financial statements, the Fiscal Agent shall file a report with the Authority certifying that the Annual Report and audited financial statements have been forwarded to the NRMSIRs and the SID pursuant to this disclosure agreement, stating the date each was mailed and listing all the NRMSIRs and the SID to which they were mailed.

Section 4. Content of Annual Reports. The Annual Report shall contain (i) the annual financial information described below relating to such fiscal year, together with audited financial statements of the Authority for such fiscal year if audited financial statements are then available, or (ii) notice of the Authority's failure if any, to provide such information. The annual financial information to be provided as aforesaid shall include financial information and operating data, in each case updated through the last day of such fiscal year unless otherwise noted, relating to the following information contained in the Official Statement, relating to the Bonds, in each case substantially in the same level of detail as is found in the referenced section of the Official Statement:

Financial Information and Operating Data Category	Reference to Official Statement for Level of Detail
1. Summary presentation on a five-calendar-year comparative basis (or such other basis as may be required by Commonwealth statutes from time to time for calculation of net cost of service), of then-current major categories of income and expenses and net cost of service, concluding with prior year, plus estimates for current year	"THE AUTHORITY - Budgetary Matters - Summary of Income and Expenses and Net Cost of Service, Calendar Year"
2. Summary presentation on a four-fiscal-year comparative basis of selected, then-current major budgeted categories of income and expenses, concluding with prior fiscal year, plus estimates for the current fiscal year	"THE AUTHORITY - Budgetary Matters - Summary of Income and Expenses, Fiscal Year"
3. An updated description of the then-current limitations on contract assistance	"THE AUTHORITY - State and Federal Assistance Payments - Section 28 Contract Assistance"
4. Summary presentation of annual calendar year debt service on Authority bonds, beginning with the current calendar year	"THE AUTHORITY - Indebtedness"
5. Summary information about outstanding	"THE AUTHORITY - Indebtedness"

Financial Information and Operating Data Category	Reference to Official Statement for Level of Detail
notes of the Authority, if any	
6. Summary presentation of annual calendar year debt service on bonds of the Boston Metropolitan District, beginning with the current calendar year	"THE AUTHORITY - Indebtedness"
7. Summary information of long-term capital lease and certificate-of-participation commitments for future calendar years as of the end of the prior fiscal year	"THE AUTHORITY - Long-Term Leases"

Any or all of the items listed above may be included by reference to other documents, including official statements pertaining to debt issued by the Authority, which have been submitted to each NRMSIR. If the document incorporated by reference is a Final Official Statement within the meaning of the Rule, it will also be available from the Municipal Securities Rulemaking Board ("MSRB"). The Authority's annual financial statements for each fiscal year shall consist of the balance sheet of the Authority and the related statements of revenue and cost of service and cash flows prepared in accordance with generally accepted accounting principles in effect from time to time, or as applicable law may otherwise provide. Such financial statements shall be audited by a firm of certified public accountants appointed by the Authority. The Fiscal Agent is agent of the Authority in the dissemination of the Annual Report and the other notices referenced herein and has no duty or responsibility as to the legal correctness or accuracy of the form or content of said Annual Report or notes.

Section 5. Reporting of Significant Events. Whenever the Authority obtains knowledge of the occurrence of any of the following listed events with respect to the Bonds, the Authority shall direct the Fiscal Agent to file notice of such occurrence, if material, in a timely manner with the MSRB and the SID:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties*;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions or events affecting the tax-exempt status of the security;
- (vii) modifications to rights of security holders;
- (viii) bonds calls;
- (ix) defeasances;
- (x) release, substitution or sale of property securing repayment of the securities*;
- (xi) rating changes.

* Not applicable to the Bonds, since there is no reserve fund securing to the Bonds, and there is no property securing repayment of the Bonds that could be released, substituted or sold.

Section 6. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Authority from providing any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, in addition to that which is required by this Disclosure Agreement. If the Authority chooses to provide any information in addition to that which is specifically required by this Disclosure Agreement, the Authority and the Fiscal Agent shall have no obligation under this Disclosure Agreement to update such information in the future.

Section 7. Enforceability of This Disclosure Agreement; Termination. To the extent permitted by law, the provisions of this Disclosure Agreement are enforceable against the Authority and the Fiscal Agent in accordance with the terms hereof by any owner of a Bond, including any beneficial owner acting as a third party beneficiary (upon proof of its status as a beneficial owner reasonably satisfactory to the Treasurer). To the extent permitted by law, any such owner shall have the right, for the equal benefit and protection of all owners of the Bonds, by mandamus or other suit or proceeding at law or in equity, to enforce its rights against the Authority and the Fiscal Agent and to compel the Authority and the Fiscal Agent and any of their officers, agents or employees to perform and carry out their duties under such provisions of this Disclosure Agreement; provided, however, that the sole remedy for a violation of this Disclosure Agreement shall be limited to an action to compel specific performance of the obligations of the Authority and the Fiscal Agent under this Disclosure Agreement and shall not include any rights to monetary damages. This Disclosure Agreement shall terminate if no Bonds remain outstanding (without regard to an economic defeasance) or if the provisions of the Rule concerning continuing disclosure are no longer in effect, whichever occurs first.

Section 8. Amendments. This Disclosure Agreement may be amended, changed or modified by the parties hereto, without the consent of, or notice to, any owners of the Bonds, (a) to comply with or conform to the provisions of the Rule or any amendments thereto or authoritative interpretations thereof by the Securities and Exchange Commission or its staff (whether required or optional), (b) to make any necessary or desirable provisions with respect to the Fiscal Agent, (c) to add to the covenants of the Authority or the Fiscal Agent for the benefit of the owners of the Bonds, (d) to modify the contents, presentation and format of the annual financial information from time to time as a result of a change in circumstances that arises from a change in legal requirements, or (e) to otherwise modify the undertaking of the Authority in this Disclosure Agreement in a manner consistent with the provisions of state legislation establishing the SID or otherwise responding to the requirements of the Rule concerning continuing disclosure; provided, however, that in the case of any amendment pursuant to clause (d) or (e), (i) the undertaking, as amended, would have complied with the requirements of the Rule at the time of the offering of the Bonds, after taking into account any amendments or authoritative interpretations of the Rule, as well as any change in circumstances, and (ii) the amendment does not materially impair the interests of the owners of the Bonds, as determined either by a party unaffiliated with the Authority or the Fiscal Agent (such as the firm serving at the time as bond counsel to the Authority) or by the vote or consent of the Registered Owners of a majority in outstanding principal amount of the Bonds affected thereby at or prior to the time of such amendment, which consent shall be obtained as provided in this Disclosure Agreement with respect to consents of Registered Owners. Any amendment, change or modification to this Disclosure Agreement shall be in writing.

If this Disclosure Agreement is amended with respect to the annual financial information to be submitted by the Authority hereunder, the annual financial information containing the amended financial information will explain, in narrative form, the reasons for the amendment and the impact of the change in the type of financial information being provided. If this Disclosure Agreement is amended with respect to the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made will present a comparison between the financial statements or information prepared on the basis of the new accounting principles and the financial statements or information prepared on the basis of the former accounting principles. Such comparison will include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order

to provide information to investors to enable them to evaluate the ability of the Authority to meet its obligations. To the extent reasonably feasible, the comparison will also be quantitative. The Authority shall direct the Fiscal Agent to give notice of any change in the accounting principles to each NRMSIR and the SID as promptly as practicable after such change has been determined.

Section 9. Disclaimer. No information provided by or on behalf of the Authority under this Disclosure Agreement shall obligate the Authority to file any information regarding matters other than those specifically described in Sections 3, 4 and 5 hereof, nor shall any such filing constitute a representation by the Authority or raise any inference that no other material events have occurred with respect to the Authority or the Bonds or that all material information regarding the Authority or the Bonds has been disclosed. The Authority shall have no obligation under this Disclosure Agreement to update information provided pursuant to this Disclosure Agreement except as specifically stated herein.

Section 9A. Duties, Immunities and Liabilities of the Fiscal Agent. The Fiscal Agent shall have only such duties under this Disclosure Agreement as are specifically set forth in this Disclosure Agreement, and the Authority hereby agrees to indemnify and save the Fiscal Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the cost and expenses (including attorney's fees) of defending against any claim of liability, but excluding liabilities due to the Fiscal Agent's negligence or willful misconduct in the performance of its duties hereunder. The obligations of the Authority under this Section 9A shall survive resignation or removal of the Fiscal Agent and payment of the Bonds.

Section 10. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 11. Governing Law. This Disclosure Agreement shall be governed by and construed in accordance with the laws of the Commonwealth and applicable law of the United States of America.

Section 12. Titles of Sections. The titles of sections in this Disclosure Agreement shall have no effect in construing this Disclosure Agreement.

Section 13. Actions to be Performed on Non-Business Days. Any action required by this Disclosure Agreement to be taken on a Saturday, Sunday or holiday within the Commonwealth may be taken on the next business day with the same force and effect as if taken on the day so required.

IN WITNESS WHEREOF, THE MASSACHUSETTS BAY TRANSPORTATION AUTHORITY and
STATE STREET BANK AND TRUST COMPANY, as Fiscal Agent, have executed this Disclosure Agreement,
under seal, all as of the day and year first above written.

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY

By: _____
Title:

STATE STREET BANK AND TRUST COMPANY
as Fiscal Agent

By: _____
Title:

NRMSIRs

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